FINANCIAL RESULTS

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MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The Department has continued to make significant progress in improving its financial management processes and practices over the past year. The Secretary, Deputy Secretary and the entire senior leadership team place great emphasis on ensuring that the financial systems, as well as the business processes used by the Department, produce accurate and timely information for decision makers. With the submission of this year's Performance and Accountability Report, we have successfully met, for the third consecutive year, the Office of Management and Budget's accelerated due date of 45 days after the close of the fiscal year.

Fiscal year 2006 was the first full year in which the Department operated with a new, modern, integrated and fully compliant core accounting system that standardizes key business and financial processes used throughout the complex. Combined with its companion data warehouse, our Program Offices have the most up-to-date financial and programmatic information at their fingertips, facilitating better decision making. However, many issues and challenges related to system start-up and reconciliations, data conversion and process definition and training demanded our attention throughout the year.

The Department made great strides toward resolving these issues and the prior material weakness on financial reporting and controls identified during the fiscal year 2005 audit. Many of the conditions which existed at the time of that audit have been successfully remediated and others are well on the road to completion. For example:

- major process improvements were made to facilitate the timely closing and strengthening of controls over month-end accounting processing;
- transaction processing backlogs experienced in the initial start-up of our new accounting system are now under control; and
- key reconciliations between system modules, integrated contractor data feeds and the general ledger are being conducted monthly.

The Department's fiscal year 2006 financial statements have been reviewed by independent auditors and received an overall disclaimer of opinion. However, the audit opinion on the Department's Balance Sheet was upgraded from a disclaimer last year to a qualified opinion for fiscal year 2006. The qualification was limited to concerns relating to the Department's controls over the reporting of undelivered orders, and this issue is reported as a material weakness. We plan to significantly improve these controls in fiscal year 2007, positioning the Department to achieve an unqualified audit opinion on next year's financial statements.

One of the Department's strategic themes is to enable mission success through sound management principles. I believe that this report demonstrates that we are institutionalizing a fully integrated resource management strategy that supports mission needs and postures the Department for continuous business process improvement. In the coming years we look forward to meeting this commitment to the American people.

James T. Campbell
November 15, 2006

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CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

The Department's financial statements have been prepared to report the financial position and results of operations of the Department of Energy, pursuant to the requirements of the Chief Financial Officers Act of 1990, the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Bulletin No. 01-09, "Form and Content of Agency Financial Statements."

The responsibility for the integrity of the financial information included in these statements rests with the management of the Department of Energy. The audit of the Department's principal financial statements was performed by an independent certified public accounting firm selected by the Department's Office of Inspector General. The auditors' report issued by the independent certified public accounting firm is included in this report.

The following provides a brief description of the nature of each required financial statement.

The **Consolidated Balance Sheets** describe the assets, liabilities, and net position components of the Department.

The **Consolidated Statements of Net Cost** summarizes the Department's operating costs by the seven long-term general goals identified in the Department's FY 2004 Strategic Plan. The Consolidated Statements of Net Cost also reports "Net Cost of Transferred Operations." This amount represents the cost of functions incurred by the Department for programs that were transferred to the Department of Homeland Security as of March 1, 2003, in accordance with the Homeland Security Act of 2002.

All operating costs reported reflect full costs, including all direct and indirect costs, consumed by a program or responsibility segment. The full costs are reduced by earned revenues to arrive at net costs. The Net Cost of Operations is reported on the Consolidated Statements of Net Cost and also on the Consolidated Statements of Financing.

The **Consolidated Statements of Changes in Net Position** identify appropriated funds used as a financing source for goods, services, or capital acquisitions. This statement presents the accounting events that caused changes in the net position section of the Consolidated Balance Sheets from the beginning to the end of the reporting period.

The **Combined Statements of Budgetary Resources** identify the Department's budget authority. Budget authority is the authority that Federal law gives to agencies to incur financial obligations that will eventually result in outlays or expenditures. Specific forms of budget authority that the Department receives are appropriations, borrowing authority, contract authority, and spending authority from offsetting collections. The Combined Statements of Budgetary Resources provides information on budgetary resources available to the Department during the year and the status of those resources at the end of the year. Detail on the amounts shown in the Combined Statements of Budgetary Resources is included in the Required Supplementary Information section on the schedule Budgetary Resources by Major Account.

The **Consolidated Statements of Financing** reconcile the obligations incurred to finance operations with the net cost of operations. Obligations incurred include amounts of orders placed, contracts awarded, services received, and similar transactions that require payment during the same or future period. Obligations incurred link the Combined Statements of Budgetary Resources to the Consolidated Statements of Financing.

The **Consolidated Statements of Custodial Activities** identify revenues collected by the Department on behalf of others. These revenues primarily result from power marketing administrations that sell power generated by hydroelectric facilities owned by the Corps of Engineers and the Bureau of Reclamation.

PRINCIPAL STATEMENTS

U. S. Department of Energy
Consolidated Balance Sheets

As of September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
ASSETS: (Note 2)		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 3)	$ 17,347	$ 15,634
Investments, Net (Note 4)	23,767	22,197
Accounts Receivable, Net (Note 5)	603	652
Regulatory Assets (Note 6)	5,457	4,536
Other Assets	20	21
Total Intragovernmental Assets	$ 47,194	$ 43,040
Investments, Net (Note 4)	210	230
Accounts Receivable, Net (Note 5)	4,030	3,990
Inventory, Net: (Note 7)		
Strategic Petroleum and Northeast Home Heating Oil Reserve	19,172	19,314
Nuclear Materials	21,245	21,285
Other Inventory	458	444
General Property, Plant, and Equipment, Net (Note 8)	24,339	23,190
Regulatory Assets (Note 6)	5,954	5,653
Other Non-Intragovernmental Assets (Note 9)	3,751	4,591
Total Assets	$ 126,353	$ 121,737
LIABILITIES: (Note 10)		
Intragovernmental Liabilities:		
Accounts Payable	$ 80	$ 56
Debt (Note 11)	10,758	9,958
Deferred Revenues and Other Credits (Note 12)	80	125
Other Liabilities (Note 13)	252	169
Total Intragovernmental Liabilities	$ 11,170	$ 10,308
Accounts Payable	3,676	3,883
Debt Held by the Public (Note 11)	6,600	6,574
Deferred Revenues and Other Credits (Note 12)	23,699	21,592
Environmental Cleanup and Disposal Liabilities (Note 14)	218,958	189,710
Pension and Other Actuarial Liabilities (Note 15)	11,802	11,727
Other Non-Intragovernmental Liabilities (Note 13)	2,999	3,664
Contingencies and Commitments (Note 16)	7,020	5,058
Total Liabilities	$ 285,924	$ 252,516
NET POSITION:		
Unexpended Appropriations	$ -	$ 8,978
Unexpended Appropriations - Earmarked Funds (Note 17)	35	-
Unexpended Appropriations - Other Funds	9,877	-
Cumulative Results of Operations	-	(139,757)
Cumulative Results of Operations - Earmarked Funds (Note 17)	(6,506)	-
Cumulative Results of Operations - Other Funds	(162,977)	-
Total Net Position	$ (159,571)	$ (130,779)
Total Liabilities and Net Position	$ 126,353	$ 121,737

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Net Cost
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
STRATEGIC GOALS:		
Defense:		
Nuclear Weapons Stewardship:		
Total Program Costs	$ 6,792	$ 6,779
Nuclear Nonproliferation:		
Total Program Costs	$ 1,215	$ 1,191
Naval Reactors:		
Program Costs	782	810
Less: Earned Revenues (Note 18)	(11)	(18)
Net Cost of Naval Reactors	$ 771	$ 792
Net Cost of Defense	$ 8,778	$ 8,762
Energy:		
Program Costs	6,835	6,617
Less: Earned Revenues (Note 18)	(5,038)	(4,182)
Net Cost of Energy	$ 1,797	$ 2,435
Science:		
Total Program Costs	$ 3,731	$ 3,565
Environment:		
Environmental Management:		
Program Costs	5,669	6,719
Less: Earned Revenues (Note 18)	(300)	(151)
Net Cost of Environmental Management	$ 5,369	$ 6,568
Nuclear Waste:		
Program Costs	484	521
Less: Earned Revenues (Note 18)	(219)	(321)
Net Cost of Nuclear Waste	$ 265	$ 200
Net Cost of Environment	$ 5,634	$ 6,768
Net Cost of Strategic Goals	$ 19,940	$ 21,530
OTHER PROGRAMS:		
Reimbursable Programs:		
Program Costs	3,393	3,314
Less: Earned Revenues (Note 18)	(3,383)	(3,251)
Net Cost of Reimbursable Programs	$ 10	$ 63
Other Programs: (Note 19)		
Program Costs	649	667
Less: Earned Revenues (Note 18)	(205)	(235)
Net Cost of Other Programs	$ 444	$ 432
Other Allocable Costs	(13)	
Costs Applied to Reduction of Legacy Environmental Liabilities (Note 20)	$ (6,108)	$ (6,637)
Costs Not Assigned (Note 21)	$ 37,201	$ 25,499
Net Cost of Operations	$ 51,474	$ 40,887

The accompanying notes are an integral part of these statements

U. S. Department of Energy

Consolidated Statements of Changes in Net Position[Note 17]

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006				FY 2005 (Unaudited)
	Earmarked Funds	**All Other Funds**	**Eliminations**	**Consolidated**	**Consolidated**
CUMULATIVE RESULTS OF OPERATIONS:					
Beginning Balances	$ (3,432)	$ (136,328)	$ -	$ (139,760)	$ (129,187)
Budgetary Financing Sources:					
Other Adjustments (rescissions)	$ -	$ -	$ -	$ -	$ -
Appropriations Used	325	22,541	-	22,866	23,711
Nonexchange Revenue	60	3	-	63	35
Donations and Forfeitures of Cash	-	13	-	13	13
Transfers - In/(Out) Without Reimbursement	(269)	102	-	(167)	(154)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Cash	1	-	-	1	340
Transfers - In/(Out) Without Reimbursement[Note 27]	(613)	(52)	-	(665)	2,132
Imputed Financing from Costs Absorbed by Others	2	(407)	-	(405)	4,279
Other	503	-	(459)	44	(39)
Total Financing Sources	$ 9	$ 22,200	$ (459)	$ 21,750	$ 30,317
Net Costs of Operations	(3,080)	(48,847)	459	(51,468)	(40,887)
Net Change	$ (3,071)	$ (26,647)	$ -	$ (29,718)	$ (10,570)
Total Cumulative Results of Operations	$ (6,503)	$ (162,975)	$ -	$ (169,478)	$ (139,757)
UNEXPENDED APPROPRIATIONS:					
Beginning Balances	$ 13	$ 8,966	$ -	$ 8,979	$ 8,784
Budgetary Financing Sources:					
Appropriations Received[Note 23]	352	23,679	-	24,031	23,782
Appropriations Transferred - In/(Out)	-	17	-	17	312
Other Adjustments	(4)	(244)	-	(248)	(189)
Appropriations Used	(325)	(22,541)	-	(22,866)	(23,711)
Total Budgetary Financing Sources	$ 23	$ 911	$ -	$ 934	$ 194
Total Unexpended Appropriations	$ 36	$ 9,877	$ -	$ 9,913	$ 8,978
Net Position	$ (6,467)	$ (153,098)	$ -	$ (159,565)	$ (130,779)

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Combined Statements of Budgetary Resources

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
BUDGETARY RESOURCES		
Unobligated balance, Brought Forward, October 1 (Note 23)	$ 4,244	$ 4,036
Recoveries of Prior Year Unpaid Obligations	47	34
Budget Authority:		
Appropriations (Note 23)	$ 25,725	$ 25,062
Borrowing Authority	270	315
Contract Authority	-	1,018
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,582	7,224
Change in Receivables from Federal sources	35	131
Change in Unfilled Customer Orders:		
Advances Received	30	30
Without Advance from Federal Sources	(603)	212
Anticipated For Rest of Year, Without Advance	-	-
Subtotal	$ 33,039	$ 33,992
Nonexpenditure Transfers, Net, Anticipated and Actual	(52)	169
Temporarily not Available Pursuant to Public Law	(266)	(266)
Permanently Not Available	(820)	(1,848)
Total Budgetary Resources (Note 23)	$ 36,192	$ 36,117
STATUS OF BUDGETARY RESOURCES		
Obligations Incurred:		
Direct	$ 24,701	$ 24,879
Exempt from Apportionment	2,984	3,253
Reimbursable	3,249	3,744
Total Obligations Incurred (Note 23)	$ 30,934	$ 31,876
Unobligated Balance:		
Apportioned	3,209	2,588
Exempt from Apportionment	247	24
Unobligated Balance Not Available (Note 23)	1,802	1,629
Total Status of Budgetary Resources	$ 36,192	$ 36,117
CHANGE IN OBLIGATED BALANCE		
Obligated Balance, Net:		
Unpaid Obligations, Brought Forward, October 1	$ 17,232	$ 17,247
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(4,687)	(4,344)
Total Unpaid Obligated Balance, Net, October 1	$ 12,545	$ 12,903
Obligations Incurred (Note 23)	30,934	31,876
Less: Gross Outlays	(30,626)	(31,856)
Obligated Balance Transferred, Net, Unpaid Obligations	-	-
Less: Recoveries of Prior Year Unpaid Obligations, Actual	(47)	(34)
Change in Uncollected Customer Payments from Federal Sources	568	(343)
	$ 13,374	$ 12,546
Obligated Balance, Net, End of Period:		
Unpaid Obligations	$ 17,493	$ 17,232
Less: Uncollected Customer Payments from Federal Sources	(4,119)	(4,687)
Total, Unpaid Obligated Balance, Net, End of Period	$ 13,374	$ 12,545
NET OUTLAYS		
Gross Outlays	$ 30,626	$ 31,856
Less: Offsetting collections	(7,612)	(7,253)
Less: Distributed Offsetting Receipts (Note 23)	(3,302)	(3,236)
Net Outlays (Note 23)	$ 19,712	$ 21,367

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Financing

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
RESOURCES USED TO FINANCE ACTIVITIES:		
Budgetary Resources Obligated:		
Obligations Incurred	$ 30,928	$ 31,876
Less: Spending Authority from Offsetting Collections and Recoveries	(7,085)	(7,631)
Obligations, Net of Offsetting Collections and Recoveries	$ 23,843	$ 24,245
Less: Offsetting Receipts	493	(3,236)
Net Obligations	$ 24,336	$ 21,009
Other Resources:		
Donations	1	1
Imputed Financing from Costs Absorbed by Others (Note 28)	(405)	4,279
Transfers-In/(Out) Without Reimbursement (Note 27)	(665)	2,132
Nuclear Waste Fund Offsetting Receipts, Deferred (Note 22)	(1,327)	2,520
Other	3	(36)
Net Other Resources Used to Finance Activities	$ (2,393)	$ 8,896
Total Resources Used to Finance Activities	$ 21,943	$ 29,905
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ (571)	$ 72
Resources that Finance the Acquisition of Assets	(3,105)	(5,750)
Resources that Fund Expenses Recognized in Prior Periods	(7,321)	(6,347)
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	(88)	153
Other Resources and Adjustments	(428)	(375)
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (11,513)	$ (12,247)
Total Resources Used to Finance the Net Cost of Operations	$ 10,430	$ 17,658
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Unfunded Liability Estimates (Note 24)	$ 39,536	$ 21,196
Increase in Exchange Revenue Receivable from the Public	(3)	2
Total Components Requiring or Generating Resources in Future Periods	$ 39,533	$ 21,198
Components Not Requiring or Generating Resources:		
Depreciation and Amortization (Note 26)	920	1,328
Revaluation of Assets and Liabilities	(189)	(178)
Other	739	881
Total Components Not Requiring or Generating Resources	$ 1,470	$ 2,031
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ 41,003	$ 23,229
NET COST OF OPERATIONS	$ 51,433	$ 40,887

The accompanying notes are an integral part of these statements

U. S. Department of Energy
Consolidated Statements of Custodial Activities

For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006	FY 2005 (Unaudited)
SOURCES OF COLLECTIONS:		
Cash Collections: (Note 25)		
Interest	$ 17	$ 20
Federal Energy Regulatory Commission	40	53
Power Marketing Administration Custodial Revenue	540	657
Other Custodial Revenue	-	3
Total Cash Collections	$ 597	$ 733
Accrual Adjustment	2	(19)
Total Custodial Revenue	$ 599	$ 714
DISPOSITION OF REVENUE:		
Transferred to Others:		
Department of the Treasury	(165)	(624)
Army Corps of Engineers	3	(5)
Bureau of Reclamation	(333)	(79)
Others	(38)	(3)
Decrease in Amounts to be Transferred	(73)	(3)
Collections Used for Refunds and Other Payments	-	
Retained by the Department	(4)	-
Net Custodial Activity	$ (11)	$ -

The accompanying notes are an integral part of these statements

NOTES TO THE CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated and combined financial statements have been prepared to report the financial position and results of operations of the U.S. Department of Energy (the Department). The statements were prepared from the books and records of the Department in accordance with generally accepted accounting principles applicable to Federal entities.

B. Description of Reporting Entity

The Department is a cabinet level agency of the Executive Branch of the U.S. Government. The Department is not subject to Federal, state, or local income taxes. The Department's headquarters organizations are located in Washington, D. C., and Germantown, Maryland, and consist of an executive management structure that includes the Secretary; the Deputy Secretary; the Under Secretary of Energy; the Under Secretary for the National Nuclear Security/Administrator for National Nuclear Security Administration; the Under Secretary for Science; Secretarial staff organizations; and program organizations that provide technical direction and support for the Department's principal programmatic missions. The Department also includes the Federal Energy Regulatory Commission, which is an independent regulatory organization responsible for setting rates and charges for the transportation and sale of natural gas and for the transmission and sale of electricity and the licensing of hydroelectric power projects.

The Department has a complex field structure comprised of operations offices, field offices, power marking administrations (Bonneville Power Administration, Southeastern Power Administration, Southwestern Power Administration, and Western Area Power Administration), laboratories, and other facilities. The majority of the Department's environmental cleanup, energy research and development, and testing and production activities are carried out by major contractors. The contractors operate, maintain, or support the Department's Government-owned facilities on a day-to-day basis and provide other special work under the direction of DOE field organizations. The Department indemnifies these contractors against financial responsibility from nuclear accidents under the provisions of the Price-Anderson Act.

These contractors have unique contractual relationships with the Department. In most cases, their charts of accounts and accounting system are integrated with the Department's accounting system through a home office-branch office type of arrangement. Additionally, the Department is responsible for funding certain defined benefit pension plans, as well as postretirement benefits such as medical care and life insurance, for the employees of these contractors. As a result, the Department's financial statements reflect not only the costs incurred by these contractors, but also include certain contractor assets (i.e., employee advances and prepaid pension costs) and liabilities (i.e., accounts payable, accrued expenses including payroll and benefits, and pension and other actuarial liabilities) that would not be reflected in the financial statements of other Federal agencies that do not have these unique contractual relationships.

C. Basis of Accounting

Transactions are recorded on an accrual accounting basis and budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when liabilities are incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. All material intra-departmental balances and transactions have been eliminated in the Consolidated Balance Sheets, Consolidated Statements of Net Cost, Consolidated Statements of Changes in Net Position, Consolidated Statements of Financing, and Consolidated Statements of Custodial Activities The Combined Statements of Budgetary Resources are prepared on a combined basis and do not include intra-departmental eliminations.

Throughout these financial statements, intragovernmental assets, liabilities, earned revenue, and costs have been classified according to the type of entity with whom the transactions were made. Intragovernmental assets and liabilities are those from or to other federal entities. Intragovernmental earned revenue represents collections or accruals of revenue from other federal entities, and intragovernmental costs are payments or accruals to other federal entities.

D. Fund Balance with Treasury

Funds with the Department of the Treasury (Treasury) primarily represent appropriated and revolving funds that are available to pay current liabilities and finance authorized purchases. Disbursements and receipts are processed by Treasury, and the Department's records are reconciled with those of Treasury (see Note 3).

E. Investments, Net

All investments are reported at cost net of amortized premiums and discounts as it is the Department's intent to hold the investments to maturity. Premiums and discounts are amortized using the effective interest yield method (see Note 4).

F. Accounts Receivable, Net

The amounts due for non-intragovernmental (non-Federal) receivables are stated net of an allowance for uncollectible accounts. The estimate of the allowance is based on past experience in the collection of receivables and an analysis of the outstanding balances (see Note 5).

G. Inventory, Net

Stockpile materials are recorded at historical cost in accordance with SFFAS No. 3, Accounting for Inventory and Related Property, except for certain nuclear materials identified as surplus or excess of the Department's needs. These nuclear materials are recorded at their net realizable value (see Note 7).

H. General Property, Plant, and Equipment, Net

Property, plant, and equipment that are purchased, constructed, or fabricated in-house, including major modifications or improvements, are capitalized at cost. The Department's property, plant, and equipment capitalization threshold is $50,000 except for the power marketing administrations (PMAs), which use thresholds ranging from $5,000 to $10,000. The capitalization threshold for internal use software is $750,000, except for the PMAs, which use thresholds ranging from $5,000 to $100,000 (see Note 8).

Costs of construction are capitalized as construction work in process. Upon completion or beneficial occupancy or use, the cost is transferred to the appropriate property account. Property, plant, and equipment related to environmental management facilities storing and processing the Department's environmental legacy wastes are not capitalized.

Depreciation expense is generally computed using the straight line method. The units of production method is used only in special cases where applicable, such as depreciating automotive equipment on a mileage basis and construction equipment on an hourly use basis. The ranges of service lives are generally as follows:

Structures and facilities	25 - 50 years
ADP software	3 - 7 years
Equipment	5 - 40 years
Land and land rights	duration of period or 50 years, whichever is less

I. Liabilities

Liabilities represent amounts of monies or other resources likely to be paid by the Department as a result of a transaction or event that has already occurred. However, no liability can be paid by the Department absent an authorized appropriation. Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources (see Note 10), and there is no certainty that the appropriations will be enacted. Also, liabilities of the Department arising from other than contracts can be abrogated by the Government acting in its sovereign capacity.

J. Earmarked Funds

The Department implemented SFFAS 27, Identifying and Reporting Earmarked Funds, in FY 2006, which required separate identification of the earmarked funds on the Consolidated Balance Sheets, Consolidated Statements of Changes in Net Position, and selected other footnotes.

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes, and must be accounted for separately from the Government's general revenues (see Note 17).

In accordance with the implementation guidance, earmarked funds are not separately identified in FY 2005.

K. Accrued Annual, Sick, and Other Leave

Federal employees' annual leave is accrued as it is earned, and the accrual is reduced annually for actual leave taken. Each year, the accrued annual leave balance is adjusted to reflect the latest pay rates. To the extent that current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plans

Federal Employees

There are two primary retirement systems for Federal employees. Employees hired prior to January 1, 1984, may participate in the Civil Service Retirement System (CSRS). On January 1, 1984, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, elected to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For most employees hired since December 31, 1983, the Department also contributes the employer's matching share for Social Security. The Department does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to its employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System. The Department does report, as an imputed financing source and a program expense, the difference between its contributions to Federal employee pension and other retirement benefits and the estimated actuarial costs as computed by the Office of Personnel Management. The PMAs make additional annual contributions to the U. S. Treasury in order to ensure that all post retirement benefit programs provided to their employees are fully funded and such costs are both recovered through rates and properly expensed.

Contractor Employees

Most of the Department's contractors maintain a defined benefit pension plan under which they promise to pay employees specified benefits, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual employer contributions to the pension plans.

Each year an amount is calculated for employers to contribute to the pension plan to ensure the plan assets are sufficient to provide for the full accrued benefits of contractor employees in the event that the plan is terminated. The level of contributions is dependent on actuarial assumptions about the future, such as the interest rate, employee turnover and deaths, age of retirement, and salary progression. The Department reports assets and liabilities of these pension plans as if it were the plan sponsor (see Note 15).

M. Net Cost of Operations

Program costs are summarized in the Consolidated Statements of Net Cost by the seven long-term general goals identified in the Department's September 30, 2003 Strategic Plan. Program costs reflect full costs including all direct and indirect costs consumed by these general goals. Full costs are reduced by exchange (earned) revenues to arrive at net operating cost (see Notes 17 and 18). The general goals are summarized on the next page.

- Nuclear Weapons Stewardship – Ensure that our nuclear weapons continue to serve their essential deterrence role by maintaining and enhancing the safety, security, and reliability of the U.S. nuclear weapons stockpile.
- Nuclear Nonproliferation – Provide technical leadership to limit or prevent the spread of materials, technology, and expertise relating to weapons of mass destruction; advance the technologies to detect the proliferation of weapons of mass destruction worldwide; and eliminate or secure inventories of surplus materials and infrastructure usable for nuclear weapons.
- Naval Reactors – Provide the Navy with safe, militarily effective nuclear propulsion plants and ensure their continued safe and reliable operation.
- Energy Security – Improve energy security by developing technologies that foster a diverse supply of reliable, affordable, and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, exploring advanced technologies that make a fundamental improvement in our mix of energy options, and improving energy efficiency.
- World-Class Scientific Research Capacity – Provide world-class scientific research capacity needed to: ensure the success of Department missions in national and energy security; advance the frontiers of knowledge in physical sciences and areas of biological, medical, environmental, and computational sciences; or provide world-class research facilities for the Nation's science enterprise.
- Environmental Management – Accelerate cleanup of nuclear weapons manufacturing and testing sites, completing cleanup of 108 contaminated sites by 2035.
- Nuclear Waste – License and construct a permanent repository for nuclear waste at Yucca Mountain.

N. Revenues and Other Financing Sources

The Department receives the majority of the funding needed to perform its mission through Congressional appropriations. These appropriations may be used, within statutory limits, for operating and capital expenditures. In addition to appropriations, financing sources include exchange and non-exchange revenues, imputed financing sources, and custodial revenues.

Exchange and Non-Exchange Revenues: In accordance with Federal Government accounting standards, the Department classifies revenues as either exchange (earned) or non-exchange. Exchange revenues are those that derive from transactions in which both the Government and the other party receive value (see Note 17). Non-exchange revenues derive from the Government's sovereign right to demand payment, including fines and penalties. These revenues are not considered to reduce the cost of the Department's operations and are reported on the Consolidated Statements of Changes in Net Position.

Imputed Financing Sources: In certain instances program costs of the Department are paid out of the funds appropriated to other Federal agencies. For example, certain costs of retirement programs are paid by the Office of Personnel Management, and certain legal judgments against the Department are paid from the Judgment Fund maintained by Treasury. When costs that are directly attributable to the Department's operations are paid by other agencies, the Department recognizes these amounts on the Consolidated Statements of Net Cost. In addition, these amounts are recognized as imputed financing sources on the Consolidated Statements of Changes in Net Position and the Consolidated Statements of Financing (see Note 28).

Custodial Revenues: The Department collects certain revenues on behalf of others which are designated as custodial revenues. The Department incurs virtually no costs to generate these revenues, nor can it use these revenues to finance its operations. The revenues are returned to Treasury and others and are reported on the Consolidated Statements of Custodial Activities (see Note 25).

O. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ from these estimates.

P. Comparative Data

Certain FY 2005 amounts have been reclassified to conform to the FY 2006 presentation.

2. Non-Entity Assets

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Fund balance with Treasury		
Naval Petroleum Reserve Deposit Fund (Note 13)	$ 323	$ 323
Elk Hills School Lands Fund (Note 13)	-	82
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)	72	280
Subtotal	$ 395	$ 685
Investments - Petroleum Pricing Violation Escrow Fund (Notes 4 and 13)	210	230
Inventories - Department of Defense stockpile oil (Notes 7 and 13)	123	106
Other	18	9
Total non-entity assets	$ 746	$ 1,030
Total entity assets	125,607	120,707
Total assets	**$ 126,353**	**$ 121,737**

Assets in the possession of the Department that are not available for its use are considered non-entity assets.

Naval Petroleum Reserve Deposit Fund

The balance in this fund represents proceeds from the sale of the Naval Petroleum Reserve at Elk Hills that are being held until final disposition in accordance with the Decoupling Agreement. Approximately $288 million is being held for a contingency payment to Chevron, Inc., pending the outcome of equity finalization. The remaining $35 million is reserved for anticipated adjustments to Occidental's final payment and for possible reimbursement to the investment banker for an advance on its commission.

Petroleum Pricing Violation Escrow Fund

The Petroleum Pricing Violation Escrow Fund represents custodial receipts collected as a result of agreements or court orders with individuals or firms that violated petroleum pricing and allocation regulations during the 1970s. These receipts are invested in Treasury securities and certificates of deposit at minority-owned financial institutions pending determination by the Department as to how to distribute the fund balance. The fund balance decreases as payments are made by the Department from this fund.

3. Fund Balance with Treasury

(in millions)

June 30, 2006	Appropriated Funds	Revolving Funds	Special Funds	Other Funds	Total
Unobligated budgetary resources					
Available	$ 6,369	$ 1,233	$ 574	$ -	$ 8,176
Unavailable (Note 23)	33	1,414	-	-	1,447
Obligated balance not yet disbursed					
Unpaid obligations	17,156	2,192	500	3	19,851
Uncollected customer payments from Fed sources	(4,116)	(404)	(65)	-	(4,585)
Deposit fund liabilities	-	-	-	384	384
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(1,370)	-	-	(1,113)
Unavailable receipt accounts	-	-	936	-	936
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund - Earmarked	-	-	(224)	-	(224)
Uranium Enrichment D&D Fund - Earmarked	-	-	(228)	-	(228)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(9)	-	(9)
U.S. Enrichment Corporation revolving fund	-	(1,414)	-	-	(1,414)
Total FY 2006 - Qtr. 3 fund balance with Treasury	**$ 19,699**	**$ 1,651**	**$ 1,484**	**$ 387**	**$ 23,221**
September 30, 2005 (unaudited)					
Unobligated budgetary resources					
Available	$ 2,382	$ 95	$ 135	$ -	$ 2,612
Unavailable (Note 23)	240	1,388	1	-	1,629
Obligated balance not yet disbursed					
Unpaid obligations	14,762	1,954	511	5	17,232
Uncollected customer payments from Fed sources	(4,378)	(296)	(13)	-	(4,687)
Deposit fund liabilities	-	-	-	391	391
Other adjustments					
Appropriations temporarily not available pursuant to law, and contract authority	257	(1,019)	-	-	(762)
Unavailable receipt accounts	-	-	963	-	963
Budgetary resources invested in Treasury securities					
Nuclear Waste Fund	-	-	(284)	-	(284)
Uranium Enrichment D&D Fund	-	-	(68)	-	(68)
Pajarito Plateau Homesteaders Compensation Fund	-	-	(8)	-	(8)
U.S. Enrichment Corporation revolving fund	-	(1,384)	-	-	(1,384)
Total FY 2005 fund balance with Treasury	**$ 13,263**	**$ 738**	**$ 1,237**	**$ 396**	**$ 15,634**

4. Investements, Net

(in millions)

Pursuant to statutory authorizations, the Department invests monies in Treasury securities and commercial certificates of deposit that are secured by the Federal Deposit Insurance Corporation. The Department's investments primarily involve the Nuclear Waste Fund (NWF) and the Uranium Enrichment Decontamination and Decommissioning (D&D) Fund. Fees paid by owners and generators of spent nuclear fuel and high-level radioactive waste and fees collected from domestic utilities are deposited into the respective funds. Funds in excess of those needed to pay current program costs are invested in Treasury securities.

Upon privatization of the United Stated Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

	Face	Unamortized Premium (Discount)	Investments Net	Unrealized Market Gains (Losses)	Market Value
September 30, 2006					
Intragovernmental Non-Marketable					
Nuclear Waste Fund - Earmarked	$ 36,483	$ (18,529)	$ 17,954	$ 1,393	$ 19,347
D&D Fund - Earmarked	4,228	82	4,310	(68)	4,242
U.S. Enrichment Corporation - Earmarked	1,414	10	1,424		1,424
Petroleum Pricing Violation Escrow Fund	72	-	72	-	72
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	$ 42,205	$ (18,437)	$ 23,768	$ 1,325	$ 25,093
Petroleum Pricing Violation Escrow Fund	210	-	210	-	210
Total FY 2006 investments	**$ 42,415**	**$ (18,437)**	**$ 23,978**	**$ 1,325**	**$ 25,303**
September 30, 2005 (unaudited)					
Intragovernmental Non-Marketable					
Nuclear Waste Fund	$ 33,549	$ (17,037)	$ 16,512	$ 2,008	$ 18,520
D&D Fund	3,891	122	4,013	(46)	3,967
U.S. Enrichment Corporation	1,387	(3)	1,384	1	1,385
Petroleum Pricing Violation Escrow Fund	281	(1)	280	-	280
Pajarito Plateau Homesteaders Compensation Fund	8	-	8	-	8
Subtotal	$ 39,116	$ (16,919)	$ 22,197	$ 1,963	$ 24,160
Petroleum Pricing Violation Escrow Fund	230	-	230	-	230
Total FY 2005 investments	**$ 39,346**	**$ (16,919)**	**$ 22,427**	**$ 1,963**	**$ 24,390**

5. Accounts Receivable, Net

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Receivable	Allowance	Net	Receivable	Allowance	Net
Intragovernmental	$ 603	$ -	$ 603	$ 652	$ -	$ 652
Nuclear Waste Fund - Earmarked	3,153	-	3,153	3,024	-	3,024
Uranium Enrichment D&D Fund - Earmarked	181	-	181	375	-	375
Power marketing administrations - Earmarked	573	(42)	531	465	(40)	425
Credit programs	51	(26)	25	54	(26)	28
Other	178	(39)	139	179	(41)	138
Subtotal	$ 4,136	$ (107)	$ 4,029	$ 4,097	$ (107)	$ 3,990
Total accounts receivable	**$ 4,739**	**$ (107)**	**$ 4,632**	**$ 4,749**	**$ (107)**	**$ 4,642**

Intragovernmental accounts receivable primarily present amounts due from other Federal agencies for reimbursable work performed pursuant to the Economy Act, Atomic Energy Act, and other statutory authority, as well as interest earned on investments held in Treasury securities.

Non-intragovernmental receivables primarily represent amounts due for NWF and D&D Fund fees. NWF receivables are supported by contracts and agreements with owners and generators of spent nuclear fuel and high-level radioactive waste that contribute resources to the fund. D&D Fund receivables from public utilities are supported by public law. Other receivables due from the public include reimbursable work billings and other amounts related to trade receivables, and other miscellaneous receivables.

6. Regulatory Assets

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Appropriation refinancing asset	$ 5,457	$ 4,536
Non-operating regulatory assets	3,928	3,955
Investor owned utilities exchange benefits	1,296	964
Conservation and fish and wildlife assets	401	412
Other regulatory assets	329	322
Subtotal	$ 5,954	$ 5,653
Total regulatory assets	**$ 11,411**	**$ 10,189**

The Department's power marketing administrations (PMAs) record certain amounts as assets in accordance with Statement of Financial Accounting Standard (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. The provisions of SFAS No. 71 require that regulated enterprises reflect rate actions of the regulator in their financial statements, when appropriate. These rate actions can provide reasonable assurance of the existence of an asset, reduce or eliminate the value of an asset, or impose a liability on a regulated enterprise.

In order to defer incurred costs under SFAS No. 71, a regulated entity must have the statutory authority to establish rates that recover all costs. Rates so established must be charged to and collected from customers. Due to increasing competitive pressures, Bonneville Power Administration (BPA) may be required to seek alternative solutions in the future to avoid raising rates to a level that is no longer competitive. If BPA's rates should become market-based, SFAS No. 71 would no longer be applicable, and all of the above costs deferred under that standard would be expensed.

Appropriation Refinancing Asset

The BPA Appropriations Refinancing Act of 1996, 16 U.S.C. 8381, required that historic interest rates set on the Federal Columbia River Power System (FCRPS) capital appropriations, which BPA is obligated to set rates to recover, be reset and assigned prevailing market rates and the unpaid balance as of September 30, 1996, be reduced by a matching amount. These appropriations include that unpaid balance of capital appropriations of the power generating assets of the U.S. Army Corps of Engineers (Corps) and the Bureau of Reclamation associated with the FCRPS. The Corps and the Bureau of Reclamation continue to own and

operate these assets, with BPA having the responsibility to recover the costs of the assets from power ratepayers. BPA established an intragovernmental regulatory asset representing the repayment amount of the transmission and power generating assets that will be recovered in BPA rates. This regulatory asset is being amortized over 68 years. BPA recognized amortization costs of $XX million as of September 30, 2006, and $77 million as of September 30, 2005 (unaudited). The Consolidated Balance Sheets include a regulatory asset and an offsetting related debt.

Non-Operating Regulatory Assets

BPA has acquired all or part of the potential generating capability of four terminated nuclear power plants. The Government's contracts require BPA to pay all or part of the annual projects' budgets, including debt services of the terminated plants. These projects' current and future costs are recovered through BPA's rates. The Consolidated Balance Sheets include a regulatory asset and offsetting related

Investor Owned Utilities (IOU) Exchange Benefits

The IOU Exchange Benefits consist of future payments to be made to BPA's IOUs to be passed on to the utilities' qualified small-farm and residential customers. The regulatory asset offsets the liability on the balance sheet (see Note 12) as these amounts will be collected in future rates. It is possible that the agreements for these future payments may be revised in connection with legal challenges that have been filed with the U.S. Court of Appeals for the Ninth Circuit which could result in a remand and potential changes to the IOU Exchange Benefit amounts to be provided to the IOU customers. BPA believes it is likely that the agreements will be sustained.

Conservation and Fish and Wildlife Assets

The conservation assets consist of capitalized power resource acquisitions resulting from investment conservation measures. The fish and wildlife assets consist of capitalized costs to fund the protection of fish and wildlife, and the mitigation of losses attributed to the development and operation of hydroelectric projects on the Columbia River and its tributaries pursuant to Section 4(h) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. 839. BPA pays for the facilities and recovers the costs in rates but does not retain ownership of the facilities. Amortization of capitalized conservation and fish and wildlife costs are computed on a straight-line method based on estimated service lives, which are up to 20 years for conservation and 15 years for fish and wildlife.

Other Regulatory Assets

Other regulatory assets consist of settlement agreements resulting from terminated power purchase and sale contracts for which costs will be recovered in power rates; bond premiums amortized over the life of the new debt instruments; deferred contributions for under-funded postretirement benefit programs; and spacer damper replacement costs for which costs will be recovered in transmission rates.

7. Inventory, Net

Inventory includes stockpile materials consisting of crude oil held in the Strategic Petroleum Reserve and the Northeast Home Heating Oil Reserve, nuclear materials, highly enriched uranium, and other inventory consisting primarily of operating materials and supplies.

Strategic Petroleum Reserve

The Strategic Petroleum Reserve consists of crude oil stored in salt domes, terminals, and pipelines. As of September 30, 2006, and September 30, 2005 (unaudited), the Reserve contained crude oil with a historical cost of $19,095 million and $19,237 million, respectively. The Reserve provides a deterrent to the use of oil as a political instrument and provides an effective response mechanism should a disruption occur. Included in the Strategic Petroleum Reserve is crude oil held for future Department of Defense (DOD) use. The FY 1993 Defense Appropriations Act authorized the Department to acquire, transport, store, and prepare for ultimate drawdown of crude oil for DOD. The crude oil purchased with DOD funding is commingled with the Department's stock and is valued at its historical cost of $123 million at September 30, 2006, and $106 million as of September 30, 2005 (unaudited) (see Notes 2 and 13).

In August 2005, Hurricane Katrina hit the Gulf Coast near the Louisiana/ Mississippi border. Although the Strategic Petroleum Reserve storage facilities were unaffected, its leased office facilities in the New Orleans area were evacuated and remained inactive until October 2005. Because of the disruption to crude oil supplies, the Department responded by entering into exchange agreements for the delivery of crude oil to affected companies. To further address the supply disruption, the President ordered a drawdown of the Reserve, resulting in the competitive sale of 11 million barrels of oil in September 2005 (unaudited). As of September 30, 2006, oil sale proceeds totaled $615 million.

Northeast Home Heating Oil Reserve

The Northeast Home Heating Oil Reserve was established in FY 2000 pursuant to the Energy Policy and Conservation Act. As of September 30, 2006, and September 30, 2005 (unaudited), the Reserve contained petroleum distillate in the New England, New York, and New Jersey geographic area valued at historical costs of $77 million.

Nuclear Materials

Nuclear materials include weapons and related components, including those in the custody of the Department of Defense under Presidential Directive, and materials used for research and development purposes. Certain surplus plutonium carried at zero value (a provision for disposal is included in environmental liabilities) has significant arms control and nonproliferation value and is instrumental to the U.S in ensuring that Russia continues toward the disposition of its weapons grade plutonium.

The Office of Nuclear Energy has inventories amounting to a total of 17,796 metric tons of uranium hexafluoride. This total is segmented into three separate stockpiles. First, the Department in 1996 received from USEC a transfer of 5,521 metric tons of uranium associated with the natural uranium component of low enriched uranium (LEU) delivered under the U.S. and Russia Highly Enriched Uranium (HEU) Purchase Agreement in 1995 and 1996. About 1,279 metric tons remain in the Department's inventories as a result of: (1) 2,228 metric tons transferred consistent with section 3112 of the USEC Privatization Act between 1996 and 2001, (2) 1,105 metric tons transferred to USEC for sale in FY 2005 and FY 2006, (3) 906 metric tons sold by DOE in FY 2006, and (4) about 3 metric tons remain unrecoverable as cylinder heels from the technetium cleanup program.

The second stockpile of uranium, amounting to 11,000 metric tons, was purchased from Russia for $325 million consistent with P.L. 105-277. This material is the natural uranium component of LEU delivered under the U.S. and Russia HEU Agreement in 1997 and 1998. Final disposition of the material cannot occur until after March 2009 based upon an international agreement between the U.S. and Russia that requires the Department to maintain a 22,000 metric ton stockpile and restricts the entry of the uranium into the commercial market until after March 2009. The Department has a inventory of U.S. origin uranium of 5,517 metric tons, of which 5,462 metric tons is also restricted from sale into the commercial market until after March 2009. Sampling and analysis indicates that a portion of the Department's stockpile of uranium hexafluoride contains technetium exceeding nuclear fuel specifications. Based on current market data, the carrying value of this material is not impaired as of September 30, 2006.

The nuclear materials inventory includes numerous items for which future use and disposition decisions have not been made. Decisions for most of these items will be made through analysis of the economic benefits and costs, and the environmental impacts of the various use and disposition alternatives. The carrying value of these items is not significant to the nuclear materials stockpile inventory balance. The Department will recognize disposition liabilities and record the material at net realizable value when disposal as waste is identified as the most likely alternative and disposition costs can be reasonably estimated. Inventory values are reduced by costs associated with decay or damage.

Highly Enriched Uranium

The Nuclear Weapons Council declared in December 1994, leading to the Secretary of Energy's announcement in February 1996, that 174.3 metric tons (MT) of the Department's HEU were excess to national security needs. Most of this material (about 151 MT) has been blended for sale as LEU and used over time as commercial or research nuclear reactor fuel to recover its value. The remaining portion (about 23 MT) of the material is already in the form of irradiated fuel or other waste forms, which require no processing prior to disposal. In November 2005, the Secretary of Energy declared that an additional 200 MT of HEU will never be used for nuclear weapons. Out of the 200 MT, approximately 20 MT will be down blended to LEU for use in commercial or research reactors. Down-blending of this material will occur over the next 25 to 30 years.

8. General Property, Plant and Equipment, Net

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Acquisition Costs	Accumulated Depreciation	Net Book Value	Acquisition Costs	Accumulated Depreciation	Net Book Value
Land and land rights	$ 1,565	$ (754)	$ 811	$ 1,506	$ (729)	$ 777
Structures and facilities	33,952	(22,505)	11,447	33,543	(21,937)	11,606
Internal use software	403	(203)	200	419	(149)	270
Equipment	15,857	(10,577)	5,280	15,203	(10,322)	4,881
Natural resources	65	(16)	49	65	(9)	56
Construction work in process	6,550	-	6,550	5,600	-	5,600
Total property, plant and equipment	**$ 58,392**	**$ (34,055)**	**$ 24,337**	**$ 56,336**	**$ (33,146)**	**$ 23,190**

9. Other Non-Intragovernmental Assets

(in millions)

	FY 2006	FY 2005 (unaudited)
Purchased generating capability	$ 2,435	$ 2,389
Prepaid pension plan costs (Note 15)	868	1,260
Oil due from others	83	224
Prepayments	21	321
Other	341	397
Total other non-intragovernmental assets	**$ 3,748**	**$ 4,591**

Purchased Generating Capability

Through contracts, BPA has acquired all or part of the generating capability of a nuclear power plant and several hydroelectric projects. The contracts require BPA to pay operating expenses and debt service for these facilities. The Consolidated Balance Sheets include an offsetting related debt for these amounts.

Oil Due from Others

The Department has a Royalty-In-Kind exchange arrangement with the Department of the Interior's Mineral Management Service (MMS) to receive crude oil from Gulf of Mexico Federal offshore leases. The oil from the MMS offshore leases was exchanged for other crude oil (exchange oil) to be delivered to the Strategic Petroleum Reserve. As a result of companies deferring the delivery of some of the exchange oil, the Department earned additional oil as a premium. All Royalty-In-Kind exchange oil has been received as of October 2005. Due to Hurricane Katrina and the rise of oil prices, the SPR was directed to stop filling the reserve. As a result, there was no activity in the Royalty-In-Kind exchange arrangement during fiscal year 2006.

Due to Hurricane Katrina, the SPR contracted with six oil companies to loan SPR oil in exchange for the return of contracted plus premium barrels related to the exchange. As of September 30, 2006, the majority of the oil due to the SPR has been returned.

In June 2006, the SPR delivered 750,000 barrels of oil from the reserve in exchange for 772,400 barrels to be returned back to the reserve by October 2006. As of September 30, 2006, the value of the oil due for this exchange was $21 million.

10. Liabilities Not Covered by Budgetary Resources

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Debt (Note 11)	$ 10,758	$ 9,958
Other	17	15
Total intragovernmental	$ 10,775	$ 9,973
Debt (Note 11)	6,600	6,574
Deferred revenues (Note 12)		
Nuclear Waste Fund - Earmarked	21,116	19,564
Environmental liabilities (Note 14)	207,390	187,784
Pension and other actuarial liabilities (Note 15)	11,802	11,727
Other liabilities		
Environment, safety and health compliance activities (Note 13)	860	1,164
Accrued annual leave for Federal employees	125	113
Other	348	350
Contingencies and commitments (Note 16)	7,020	5,058
Total liabilities not covered by budgetary resources	$ 266,036	$ 242,307
Total liabilities covered by budgetary resources	19,888	10,209
Total liabilities	**$ 285,924**	**$ 252,516**

11. Debt

(in millions)

	FY 2006			FY 2005 (unaudited)		
	Beginning Balance	Net Borrowings	Ending Balance	Beginning Balance	Net Borrowings	Ending Balance
Intragovernmental						
Borrowing from Treasury	$ 2,777	$ (295)	$ 2,482	$ 2,900	$ (123)	$ 2,777
Appropriated capital	2,972	227	3,199	3,111	(139)	2,972
Refinanced appropriations	2,219		3,151	2,401	(182)	2,219
Capitalization adjustment	1,990	(65)	1,925	2,056	(66)	1,990
Subtotal	$ 9,958	$ (133)	$ 10,757	$ 10,468	$ (510)	$ 9,958
Non-Federal projects	6,574	26	6,600	6,531	43	6,574
Total debt	**$ 16,532**	**$ (107)**	**$ 17,357**	**$ 16,999**	**$ (467)**	**$ 16,532**

Borrowing from Treasury

To finance its capital programs, BPA is authorized by Congress to issue to Treasury up to $4,450 million of interestbearing debt with terms and conditions comparable to debt issued by U.S. Government corporations. A portion ($1,250 million) is reserved for conservation and renewable resource loans and grants. As of September 30, 2006, of the total $2,707 million of outstanding debt, $760 million represented conservation and renewable resource loans and grants (including Corps, Bureau of Reclamation and U.S. Fish and Wildlife capital investments). The weighted average interest rates for Treasury borrowing as of September 30, 2006, and September 30, 2005 (unaudited), were 4.88 percent and 4.76 percent, respectively. The fair value of BPA's long-term debt, based on discounting future cash flows using rates offered by Treasury as of September 30, 2005 (unaudited), for similar maturities, exceeds carrying value by approximately $169 million as of September 30, 2005 (unaudited). BPA's policy is to refinance debt that is callable when associated benefits exceed costs of refinancing.

Appropriated Capital

Appropriated capital owed represents the balance of appropriations provided to the Department's power marketing administrations for construction and operation of power projects which will be repaid to Treasury's General Fund and the Department of the Interior's (Interior) Reclamation Fund. The amount owed also includes accumulated interest on the net unpaid Federal investment in the power projects. The Federal investment in these facilities is to be repaid within 50 years from the time the facilities are placed in service or are commercially operational. Replacements of Federal investments are generally to be repaid over their expected useful service lives. There is no requirement for repayment of a specific amount of Federal investment on an annual basis.

Each of the power marketing administrations, except for BPA, receives an annual appropriation to fund operation and maintenance expenses. These appropriated funds are repaid to the General Fund of the Treasury and Interior from the revenues generated from the sale of power and transmission services. To the extent that funds are not available for payment, such unpaid annual net deficits become payable from the subsequent years' revenues prior to any repayment of Federal investment. The Department treats these appropriations as a borrowing from the General Fund of the Treasury and Interior, and as such, the Consolidated Statements of Changes in Net Position do not reflect these funds as appropriated capital used.

Except for the appropriation refinancing asset described in Note 6 and in the next paragraph, the Department's financial statements do not reflect the Federal investment in power generating facilities owned by the Department of Defense, U.S Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. The Department's power marketing administrations are responsible for collecting, and remitting to Treasury, revenues resulting from the sale of hydroelectric power generated by these facilities (see Note 25).

Refinanced Appropriations

As discussed in Note 6, BPA refinanced its unpaid capital appropriations as of September 30, 1996. The weighted average interest rate on outstanding appropriations was 6.7 percent as of September 30, 2006, and September 30, 2005 (unaudited). The remaining period of repayment on refinanced appropriations is 31 years. Repayment amounts were determined based on the date the respective facilities were placed in service using the weighted average service lives of the associated investments, not to exceed 50 years. BPA repays amounts owed to the General Fund of the Treasury and Interior's Reclamation Fund.

Capitalization Adjustment

The amount of appropriations refinanced as a result of the BPA Appropriations Refinancing Act of 1996 was $6.6 billion. After refinancing, the appropriations outstanding were $4.1 billion. The difference between the appropriated debt before and after the refinancing was recorded as a capitalization adjustment. This adjustment is being amortized over 40 years of which 31 years remain. Amortization of the capitalization adjustment was $48 million as of September 30, 2006, and $66 million as of September 30, 2005 (unaudited). The weighted average interest was 6.7 percent as of September 30, 2006, and September 30, 2005 (unaudited).

Non-Federal Projects

As discussed in Notes 6 and 9, the non-Federal projects debt represents BPA's liability to pay all or part of the annual budgets, including debt service, of the generating capability of five operating and nonoperating nuclear power plants as well as several hydroelectric projects.

The following table summarizes future principal payments required for the debt described above (unaudited).

(in millions)

Fiscal Year	Borrowing from Treasury	Appropriated Capital	Refinanced Appropriations	Capitalization Adjustment	Non-Federal Projects
2007	$ 556	$ 10	$ 24	$ 65	$ 231
2008	480	21	11	65	290
2009	310	21	10	65	282
2010	90	13	26	65	288
2011	115	75	21	65	285
2012+	1,156	3,179	2,127	1,617	5,230
Total	**$ 2,707**	**$ 3,319**	**$ 2,219**	**$ 1,942**	**$ 6,606**

12. Deferred Revenues and Other Credits

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental	$ 80	$ 125
Nuclear Waste Fund - Earmarked[(Note 10)]	$ 21,116	$ 19,564
Power marketing administrations - Earmarked	2,309	1,812
Reimbursable work advances	240	168
Other	34	48
Subtotal	$ 23,699	$ 21,592
Total deferred revenues and other credits	**$ 23,779**	**$ 21,717**

Nuclear Waste Fund (NWF)

NWF revenues are accrued based on fees assessed against owners and generators of high-level radioactive waste and spent nuclear fuel and interest accrued on investments in Treasury securities. These revenues are recognized as a financing source as costs are incurred for NWF activities. Annual adjustments are made to defer revenues that exceed the NWF expenses.

Power Marketing Administrations

The power marketing administrations' deferred revenues primarily represent amounts paid to BPA from participants under various alternating current intertie capacity agreements, various customer reimbursable projects and generator funds held as security for network upgrades and interconnection which will be returned as credits against future transmission service and load diversification fees paid to BPA by various customers. These one-time payments cover the remaining term of the customer's existing contractual agreement and are recognized as revenues as contract commitments are satisfied except for the generator funds which will be returned as credits against future transmission services. Also included in Deferred Revenues and Other Credits is BPA's offset to IOU Exchange Benefits (see Note 6).

13. Other Non-Intragovernmental Liabilities

(in millions)

	FY 2006	FY 2005 (unaudited)
Intragovernmental		
Oil held for Department of Defense (Notes 2 and 7)	$ 123	$ 106
Other	129	63
Total other intragovernmental liabilities	$ 252	$ 169
Environment, safety and health compliance activities (Notes 10 and 24)	$ 860	$ 1,164
Accrued payroll and benefits	893	923
Petroleum Pricing Violation Escrow Fund (Note 2)	282	510
Naval Petroleum Reserve Deposit Fund (Note 2)	323	323
Elk Hills School Lands Fund (Note 2)	-	82
Other	641	662
Subtotal	$ 2,999	$ 3,664
Total other liabilities	**$ 3,251**	**$ 3,833**

Environment, Safety and Health Compliance Activities

The Department's environment, safety, and health liability represents those activities necessary to bring facilities and operations into compliance with existing environmental safety and health (ES&H) laws and regulations (e.g., Occupational Safety and Health Act; Clean Air Act; Safe Drinking Water Act). Types of activities included in the estimate relate to the following: upgrading site-wide fire and radiological programs; nuclear safety upgrades; industrial hygiene and industrial safety; safety related maintenance; emergency preparedness programs; life safety code improvements; and transportation of radioactive and hazardous materials. The estimate covers corrective actions expected to be performed in future years for programs outside the purview of the Department's Environmental Management (EM) Program. ES&H activities within the purview of the EM program are included in the environmental liability estimate. The September 30, 2006, change in the ES&H liability is due to (1) additional corrective actions, activities, or programs that are required to improve the facilities' state of compliance and move them toward full compliance, or conformance with all applicable ES&H laws, regulation, agreements, and the Department's orders; (2) revised cost estimates for existing ES&H activities; and (3) costs of work performed during the year.

Accrued Payroll and Benefits

Accrued payroll and benefits represent amounts owed to the Department's Federal and contractor employees.

Other Liabilities

The balance consists primarily of liabilities associated with other deposit funds, suspense accounts, receipts due to Treasury, and contract advances.

14. Environmental Cleanup and Disposal Liabilities

(in millions)

	FY 2006	FY 2005 (unaudited)
Environmental Management Program	$ 148,545	$ 121,411
Legacy environmental liabilities - other	17,551	17,465
Total legacy environmental liabilities	$ 166,096	$ 138,876
Active and surplus facilities	27,591	25,972
High-level waste and spent nuclear fuel disposition	15,234	15,059
Other	10,037	9,803
Total environmental cleanup and disposal liabilities	$ 218,958	$ 189,710
Amount funded by current appropriations	(1,978)	(1,926)
Total unfunded environmental cleanup and disposal liabilities	**$ 216,980**	**$ 187,784**
Changes in environmental cleanup and disposal liabilities		
Total environmental cleanup and disposal liabilities, beginning balance	$ 189,711	$ 181,742
Changes to environmental cleanup and disposal liability estimates		
Legacy environmental liabilities	31,694	11,757
Active and surplus facilities	1,666	280
High-level waste and spent nuclear fuel disposition	409	380
Other	2,530	4,102
Total changes in estimates (Notes 21 and 24)	$ 36,299	$ 16,519
Costs applied to reduction of legacy environmental liabilities (Note 20)	(6,110)	(6,637)
Capital expenditures related to remediation activities	(942)	(1,914)
Total environmental cleanup and disposal liabilities	**$ 218,958**	**$ 189,710**

During World War II and the Cold War, the United States developed a massive industrial complex to research, produce, and test nuclear weapons. The nuclear weapons complex included nuclear reactors, chemical processing buildings, metal machining plants, laboratories, and maintenance facilities that manufacture tens of thousands of nuclear warheads and conducted more than one thousand nuclear explosion tests.

At all sites where these activities took place, some environmental contamination occurred. This contamination was caused by the production, storage, and use of radioactive materials and hazardous chemicals, which resulted in contamination of soil, surface water, and groundwater. The environmental legacy of nuclear weapons production also includes thousands of contaminated buildings and large volumes of waste and special nuclear materials requiring treatment, stabilization, and disposal. Approximately one-half million cubic meters of radioactive high-level, mixed, and low-level wastes must be stabilized, safeguarded, and dispositioned, including a quantity of plutonium sufficient to fabricate thousands of nuclear weapons.

Assumptions and Uncertainties

Estimating the Department's environmental cleanup liability requires making assumptions about future activities and is inherently uncertain. The future course of the Department's environmental management program will depend on a number of fundamental technical and policy choices, many of which have not been made. The cost and environmental implications of alternative choices can be profound. For example, many contaminated sites and facilities could be restored to a condition suitable for any desired use; they could also be restored to a point where they pose no near-term health risks to surrounding communities but are essentially surrounded by fences and left in place. Achieving the former conditions would have a higher cost but may, or may not, warrant the costs and potential ecosystem disruption, or be legally required. The baseline estimates reflect applicable local decisions and expectations as to the extent of cleanup and site and facility reuse, which include consideration of Congressional mandates, regulatory direction, and stakeholder input.

The environmental liability estimates are dependent on annual funding levels and achievement of work as scheduled. There is a significant gap between preliminary EM budgetary funding levels and the environmental liability estimates. If additional funding is not received, cleanup work scope will need to be extended and delayed resulting in higher costs. However, the amount of any potential cost increases resulting from funding shortfalls cannot be estimated at this time. The environmental liability estimates include contingency estimates intended to account for the uncertainties associated with the technical cleanup scope of the program.

The liabilities as of September 30, 2006, and September 30, 2005 (unaudited), are stated in FY 2006 dollars and FY 2005 dollars, respectively, as required by generally accepted accounting standards for Federal entities. Future inflation could cause actual costs to be substantially higher than the recorded liability.

In July 2004, the U.S. Court of Appeals in Washington, D.C. vacated a standard promulgated by the Environmental Protection Agency (EPA) for the protection of the environment from offsite releases of radioactive material from the Yucca Mountain repository. The EPA standard required

the Department to limit offsite releases from the repository for 10,000 years. The Court held that EPA violated the Energy Policy Act of 1992, which required the agency to issue standards for Yucca Mountain based upon and consistent with findings by the National Academy of Sciences, whose report issued in 1995 stated that the radiation hazard from the repository might continue for a much longer period. EPA issued a revised standard for comment in August 2005, and in September 2005, the Nuclear Regulatory Commission issued a draft rule that incorporates the revised EPA standard. The ability of the repository to mitigate radiation hazards is one of the criteria that the NRC will consider in its evaluation of a license application for the repository. Challenges to the revised standard could delay the Department's filing of a repository license application and, consequently, delay the opening of the repository.

Components of the Liability

Environmental Management Program (EM) Estimates

EM is responsible for managing the legacy of contamination from the nuclear weapons complex. As such, EM manages thousands of contaminated facilities formerly used in the nuclear weapons program, oversees the safe management of vast quantities of radioactive waste and nuclear materials, and is responsible for the cleanup of large volumes of contaminated soil and water. The FY 2006 EM life-cycle cost estimate reflects a strategic vision to complete this cleanup mission. This strategy provides for a site-by-site projection of the work required to complete all EM projects, while complying with regulatory agreements, statutes, and regulations. Each project baseline estimate includes detailed projections of the technical scope, schedule, and costs at each site for the cleanup of contaminated soil, groundwater, and facilities; treating, storing, and disposing of wastes; and managing nuclear materials. The baseline estimates also include costs for related activities such as landlord responsibilities, program management, and legally prescribed grants and cooperative agreements for participation and oversight by native American tribes, regulatory agencies, and other stakeholders.

Over the past several years a number of management reforms have been implemented within the EM program. These reforms include: 1) redefining and aligning acquisition strategies, 2) instituting robust project management practices and procedures in executing the cleanup program, and 3) implementing a strict configuration control system for key management parameters of the cleanup program. In FY 2006, progress towards improving efficiency and management of the program continue. Field offices have prepared technical baselines that describe in detail the activities, schedule, and resources required to complete the EM cleanup mission at the respective sites. In addition, EM has implemented an earned value management reporting system to ascertain whether cleanup progress remains on schedule and within budget. Achievement of accelerated cleanup goals is largely contingent upon receipt of funding, yet to be approved by Congress, during FY 2007 and succeeding years. In addition to the assumptions and uncertainties discussed above, the following key assumptions and uncertainties relate to the EM baseline estimates:

- The Department has identified approximately 10,400 potential release sites from which contaminants could migrate into the environment. Although virtually all of these sites have been at least partially characterized, final remedial action and regulatory decisions have not been made for many sites. Site-specific assumptions regarding the amount and type of contamination and the remediation technologies that will be utilized were used in estimating the environmental liability related to these sites.
- Cost estimates for management of the Department's high-level waste are predicated upon assumptions as to the timing and rate of acceptance of the waste by the first geological repository. Delays in opening the repository could cause EM project costs to increase.
- Estimates are based on remedies considered technically and environmentally reasonable and achievable by local project manager and appropriate regulatory authorities.
- Estimated cleanup costs at sites for which there is no current feasible remediation approach are excluded from the baseline estimates, although applicable stewardship and monitoring costs for these sites are included. The cost estimate would be higher if some remediation were assumed for these areas. However, because the Department has not identified effective remedial technologies for these sites, no basis for estimating costs is available. An example of a site for which cleanup costs are excluded is the nuclear explosion test area at the Nevada Test Site.
- The Low-Level Radioactive Waste Policy Amendments Act of 1985 assigned responsibility to the Department for the disposal of certain low-level wastes generated by the Department and others that are not suitable for nearsurface disposal. The Department has not determined a disposal path and has therefore included only storage and monitoring costs for these wastes in the liability. The disposal costs for these wastes are not expected to be material in relation to the Department's environmental liabilities.

Changes to the EM baseline estimates during FY 2006 and FY 2005 (unaudited) resulted from inflation adjustments to reflect constant dollars for the current year; improved and updated estimates for the same scope of work; revisions in acquisition strategies, technical approach or scope; regulatory changes; cleanup activities performed; additional scope and transfers out to the EM baseline estimates; and additions for facilities transferred from the active and surplus category discussed below.

Legacy Environmental Liabilities – Other

These liabilities are comprised of the estimated cleanup and post-closure responsibilities, including surveillance and monitoring activities, soil and groundwater remediation, and disposition of excess material for sites after the EM program activities have been completed. The costs for these post-closure activities are estimated for a period of 75 years after balance sheet date, i.e. through 2081 in FY 2006 and through 2080 in FY 2005 (unaudited). Some postcleanup monitoring and other long-term stewardship activities are expected to continue beyond 2081, but the Department believes the costs of these activities cannot reasonably be estimated.

Active and Surplus Facilities

This liability includes anticipated remediation costs for active and surplus facilities managed by the Department's ongoing program operations and which will ultimately require stabilization, deactivation, and decommissioning. The estimate is largely based upon a cost-estimating model which extrapolates stabilization, deactivation, and decommissioning costs from facilities included in the EM baseline estimates to those active and surplus facilities with similar characteristics. Site-specific estimates are used when available. Cost estimates for active and surplus facilities are updated each year to reflect current year constant dollars; the transfer of cleanup and management responsibilities for these facilities by other programs to EM, as discussed above; changes in facility size or contamination assessments; and estimated cleanup costs for newly

contaminated facilities. For facilities newly contaminated since FY 1997, cleanup costs allocated to future periods and not included in the liability amounted to $505 million at September 30, 2006, and $440 million at September 30, 2005 (unaudited).

High-Level Waste and Spent Nuclear Fuel Disposition

The Nuclear Waste Policy Act of 1982 established the Department's responsibility to provide for permanent disposal of the Nation's high-level radioactive waste and spent nuclear fuel. The Act requires all owners and generators of high-level nuclear waste and spent nuclear fuel, including the Department, to pay their respective shares of the full cost of the program. To that end, the Act establishes a fee on owners and generators that the Department must collect and annually assess to determine its adequacy. The Department's liability reflects its share of the estimated future costs of the program based on its inventory of high-level waste and spent nuclear fuel, plus the unfunded portion of actual costs incurred to date and the accrued interest on the unfunded costs. The Department's liability does not include the portion of the cost attributable to other owners and generators.

Changes to the high-level waste and spent nuclear fuel disposition liability during FY 2006 and FY 2005 (unaudited) resulted from inflation adjustments to reflect current year constant dollars, revisions in technical approach or scope, changes in the Department's allocable percentage share of future costs, and actual costs incurred by the Department that were allocated to the Department's share of the liability.

Other Environmental Liabilities

Other environmental liabilities consist of liabilities for disposition of surplus plutonium and highly enriched uranium. The liability for disposition of surplus plutonium was increased in FY 2005 (unaudited) due to program delays imposed by running the program in parallel with the Russian program (see Note 7) and facility redesign.

15. Pension and Other Actuarial Liabilities

(in millions)

	FY 2006	FY 2005 (unaudited)
Contractor pension plans	$ 1,977	$ 2,563
Contractor postretirement benefits other than pensions	9,707	9,041
Contractor disability and life insurance plans	21	24
Federal Employees' Compensation Act	97	99
Total pension and other actuarial liabilities	**$ 11,802**	**$ 11,727**

Most of the Department's contractors have defined benefit pension plans under which they promise to pay specified benefits to their employees, such as a percentage of the final average pay for each year of service. The Department's cost under the contracts includes reimbursement of annual contractor contributions to these pension plans. The Department's contractors also sponsor postretirement benefits other than pensions (PRB) consisting of predominantly postretirement health care benefits. The Department approves the contractors' pension and postretirement benefit plans and is ultimately responsible for the allowable costs of funding the plans. The Department reimburses its major contractors for employee disability insurance plans, and estimates are recorded as unfunded liabilities for these plans.

Contractor Pension Plans

The Department follows SFAS No. 87, Employers' Accounting for Pensions, for contractor employees for whom the Department has a continuing pension obligation. As of September 30, 2006, the measurement date, the Department has prepaid pension costs of $930 million before minimum liability adjustment and $861 after minimum liability adjustment; and accrued pension costs of $1,324 million before minimum liability adjustment and $1,977 million after minimum liability adjustment. The Department has a continuing obligation for a variety of contractor-sponsored pension plans (39 qualified and 6 nonqualified). In this regard, benefit formulas consist of final average pay (30 plans), career average pay (8 plans), dollar per month of service (6 plans), and one defined contribution plan with future contributions for retired employees. Sixteen of the plans cover nonunion employees only; 9 cover union employees only; and 20 cover both union and nonunion employees.

For qualified plans, the Department's current funding policy is for contributions made to a trust during a plan year for a separate defined benefit pension plan not to exceed the greater of (1) the minimum contribution required by Section 302 of the Employee Retirement Income Security Act (ERISA) or (2) the amount estimated to eliminate the unfunded current liability as projected to the end of the plan year. The term "unfunded current liability" refers to the unfunded current liability as defined in Section 302(d) (8) of ERISA. For nonqualified plans, the funding policy is pay-as-yougo.

Plan assets generally include cash and equivalents, stocks, corporate bonds, government bonds, real estate, venture capital, international investments, and insurance contracts. There are three plans that have securities of the employer or related parties included in the plan assets. The total amount invested in such securities is $3.6 million.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include the discount rates, mortality assumptions, and an expected long-term rate of return on plan assets, salary scale, and any other economic assumption

consistent with an expected long-term inflation rate of 3.0 percent for the entire U.S. economy with adjustments to reflect regional or industry rates as appropriate. In most cases, ERISA valuation actuarial assumptions for demographic assumptions were used.

The following specific assumptions and methods were used to determine the net periodic pension cost. The weighted average discount rate was 5.25 percent for FY 2006 and 5.75 percent for FY 2005 (unaudited); the average long-term rate of return on assets was 7.84 percent in FY 2006 and 7.88 percent in FY 2005 (unaudited); and the average rate of compensation was 4.5 percent in FY 2006 and 4.4 percent in FY 2005 (unaudited). The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligations as of September 30, 2006, and September 30, 2005 (unaudited), were 5.75 percent and 5.25 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The transition obligation was amortized over the greater of 15 years or the average remaining service.

Contractor Postretirement Benefits (PRB) Other Than Pensions

The Department follows SFAS No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions, for contractor employees for whom the Department has a continuing obligation. SFAS No. 106 requires that the cost of PRB be accrued during the years that the employees render service. As of September 30, 2006, and September 30, 2005 (unaudited), the measurement dates, the Department has an accrued PRB liability of $9,707 million and $9,041 million, respectively. Generally, the PRB plans are unfunded, and the Department's funding policy is to fund on a pay-as-you-go basis. There are six contractors, however, that are prefunding benefits in part as permitted by law. The Department's contractors sponsor a variety of postretirement benefits other than pensions. Benefits consist of medical (41 contractors), dental (19 contractors), life insurance (23 contractors), and Medicare Part B premium reimbursement (5 contractors). Forty of the contractors sponsor a point of service plan, a PPO, an HMO, or similar plan. Twenty-one of these also have a traditional indemnity or similar plan. Two additional contractors have only a traditional indemnity or similar plan.

Assumptions and Methods - In order to provide consistency among the Department's various contractors, certain standardized actuarial assumptions were used. These standardized assumptions include medical and dental trend rates, discount rates, and mortality assumptions.

The following specific assumptions and methods were used in determining the PRB estimates. The medical trend rates for a point of service plan, an HMO, a PPO, or similar plan, grade from 10.0 percent in 2006 down to 5.5 percent in 2014 and later. The medical trend rates for a traditional indemnity plan, or similar plan, grade from 11.0 percent in 2006 down to 5.5 percent in 2014 and later. The dental trend rates at all ages grade down from 7.0 percent in 2006 to 5.0 percent in 2014 and later.

The weighted average discount rates of 5.25 percent for FY 2006 and 5.75 percent for FY 2005 (unaudited), and the average long-term rate of return on assets of 7.0 percent in FY 2006 and 6.58 percent in FY 2005 (unaudited) were used to determine the net periodic postretirement benefit cost. The rate of compensation increase was the same rate as each contractor used to determine pension contributions. The average long-term rate of return on assets shown above is the average rate for all of the contractor plans. Each contractor develops its own average long-term rate of return on assets based on the specific investment profile of the specific plans it sponsors. Therefore, there is no one overall approach to setting the rate of return for all of the contractors' plans.

The weighted average discount rates used to determine the benefit obligation as of September 30, 2006, and September 30, 2005 (unaudited), were 5.75 percent and 5.25 percent, respectively.

Straight line amortization of unrecognized prior service cost over the average remaining years of service to full eligibility for benefits of the active plan participants and the minimum amortization of unrecognized gains and losses were used. The Department chose immediate recognition of the transition obligation existing at the beginning of FY 1994.

(in millions)	Pension Benefits FY 2006	Pension Benefits FY 2005 (unaudited)	Other Postretirement Benefits FY 2006	Other Postretirement Benefits FY 2005 (unaudited)
Reconciliation of funded status				
Accumulated benefit obligation	$ 24,666	$ 24,656		
Effect of future compensation increases	3,941	4,054		
Benefit obligation	$ 28,607	$ 28,710	$ 11,500	$ 11,591
Plan assets	24,108	22,990	164	157
Funded status	$ (4,499)	$ (5,720)	$ (11,336)	$ (11,434)
Unrecognized net (asset)/obligation at transition	(503)	(626)		
Unrecognized prior service cost	748	938	(408)	(290)
Unrecognized actuarial loss	3,860	5,646	2,044	2,689
Net amount recognized	$ (394)	$ 238	$ (9,700)	$ (9,035)
Minimum liability adjustment	(722)	(1,547)	-	-
Prepaid/(accrued) benefit cost after minimum liability	$ (1,116)	$ (1,309)	$ (9,700)	$ (9,035)
Total prepaid benefit cost after minimum liability	861	1,254	7	6
Total (accrued) benefit cost after minimum liability	$ (1,977)	$ (2,563)	$ (9,707)	$ (9,041)
Components of net periodic costs				
Service costs	$ 927	$ 803	$ 292	$ 255
Interest costs	1,559	1,447	618	580
Expected return on plan assets	(1,722)	(1,625)	(11)	(11)
Net amortization	391	235	102	39
Impact of curtailment or special termination benefits	58	26	(4)	17
Total net periodic costs	$ 1,213	$ 886	$ 997	$ 880
Contributions and benefit payments				
Employer contributions	$ 530	$ 271	$ 328	$ 306
Participant contributions	3	3	71	64
Benefit payments	1,181	1,069	403 *	383 *

* Includes $6 million paid from plan assets for 2006 and $13 million paid from plan assets for 2005 (unaudited).

(in millions)	Pension Benefits	Other Postretirement Benefits
Expected contributions for fiscal year ending September 30, 2007		
Employer contributions	$517	$355
Participant contributions	3	79

(in millions)	Pension Benefits	Other Postretirement Benefits
Estimated future benefit payments		
Fiscal Year 2007	$1,162	$388
Fiscal Year 2008	1,237	427
Fiscal Year 2009	1,321	467
Fiscal Year 2010	1,414	508
Fiscal Year 2011	1,517	551
Fiscal Years 2012 to 2016	9,267	3,346

The following chart shows the average target allocation for the 38 pension benefit plans and six other postretirement benefit plans with assets. The average actual fiscal year 2006 and 2005 allocations of assets are also shown.

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2006	Percent of Plan Assets at September 30, 2005 (unaudited)
Cash and equivalents	2.2%	2.6%	3.0%
Government bonds	12.5%	9.8%	11.0%
Corporate bonds	21.6%	16.7%	15.7%
Domestic equities	42.5%	40.4%	45.5%
International equities	10.3%	12.4%	8.7%
Real estate	1.3%	0.8%	0.5%
Insurance contracts (general accounts)	8.2%	13.1%	11.9%
Insurance contracts (separate accounts)	0.0%	2.6%	2.6%
Employer securities	0.2%	0.0%	0.0%
Other	1.2%	1.6%	1.1%
Total	100.0%	100.0%	100.0%

Other Postretirement Benefits

Asset Category	Target Allocation	Percent of Plan Assets at September 30, 2006	Percent of Plan Assets at September 30, 2005 (unaudited)
Cash and equivalents	0.0%	0.8%	0.9%
Government bonds	0.0%	7.4%	11.0%
Corporate bonds	4.3%	8.2%	4.5%
Domestic equities	6.6%	9.2%	16.2%
International equities	6.4%	5.4%	0.0%
Real estate	2.7%	2.3%	0.7%
Insurance contracts (general accounts)	60.0%	50.0%	50.0%
Insurance contracts (separate accounts)	0.0%	0.0%	0.0%
Employer securities	0.0%	0.0%	0.0%
Other	20.0%	16.7%	16.7%
Total	100.0%	100.0%	100.0%

Each contractor develops its own investment policies and strategies for the plans it sponsors. Therefore, there is no one overall investment policy for the contractors' plans. Generally, their objectives provide for benefit security for plan participants through the maximization of total returns while limiting risk and providing liquidity coverage of benefit payments.

In September 2006, SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, was issued. The Department plans to implement this new accounting standard for its September 30, 2007, financial statements. The impact of the new accounting standard on the Department's financial statements cannot be currently estimated; however, it may have a significant impact on what will be recognized as pension and PRB assets and liabilities on the Department's balance sheet.

16. Contingencies and Commitments

(in millions)

	FY 2006	FY 2005 (unaudited)
Spent nuclear fuel litigation	$ 7,000	$ 5,000
Other	20	58
Total contingencies and commitments	**$ 7,020**	**$ 5,058**

The Department is a party in various administrative proceedings, legal actions, and tort claims which may ultimately result in settlements or decisions adverse to the Federal Government. The Department has accrued contingent liabilities where losses are determined to be probable and the amounts can be estimated. Other significant contingencies exist where a loss is reasonably possible or where the loss is probable and an estimate cannot be determined. In some cases, a portion of any loss that may occur may be paid from Treasury's Judgment Fund (Judgment Fund). The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the Government for which the Department, unless required by law, is not required to reimburse from its appropriated funds. The following are significant contingencies:

- Spent Nuclear Fuel Litigation – In accordance with the Nuclear Waste Policy Act of 1982 (NWPA), the Department entered into contracts with more than 45 utilities in which, in return for payment of fees into the Nuclear Waste Fund, the Department agreed to begin disposal of spent nuclear fuel (SNF) on January 31, 1998. Because the Department has no facility available to receive SNF under the NWPA, the Department has been unable to begin disposal of the utilities' SNF as required by the contracts. Significant litigation claiming damages for partial breach of contract has ensued as a result of this delay.

  To date, six suits have been settled involving utilities that collectively produce more than one-fifth of the nucleargenerated electricity in the United States. Under the terms of the settlement, the Treasury's Judgment Fund paid $150 million to the settling utilities for delay damages they have incurred through 2005 and will make annual payments to them for the future costs as they are incurred. In addition, two cases have been tried and judgments entered. One case that was affirmed on appeal sustained the trial court's finding in which the utility was awarded no damages based on the trial court's finding that the utility had incurred no compensable costs as a result of the Government's delay as of the time of the trial. In the second case, the trial court found the Government liable for damages in the amount of $35 million through September 30, 2004, and that the utility can bring future actions for damages incurred after that date.

  Fifty-six cases remain pending in the Court of Federal Claims. Liability is probable in these cases, and in many of these cases, orders have been entered establishing the Government's liability. The only outstanding issue to be litigated is ascertaining the amount of damages to be awarded. The industry is reported to estimate that damages for all utilities with which the Department has contracts ultimately will be at least $50 billion. The Department believes that the industry's estimate is highly inflated and that the disposition of the eight cases that have been resolved to date suggests that the Government's ultimate liability is likely to be significantly less than that estimate.

  The Department did not meet its goal of submitting a license application for the Yucca Mountain repository to the Nuclear Regulatory Commission by the end of calendar year 2004, but has recently announced that it plans to submit a license application by 2008. Based on its submitting a license application by 2008, the Department would expect to begin repository operations by 2017. The estimate of likely damages based on that operation start date is approximately $7 billion.

  Under the current law, any damages or settlements will be paid out of the Treasury's Judgment Fund, which the Department will not be required to reimburse.

- Alleged Exposures to Radioactive and/or Toxic Substances – A number of class action and/or multiple plaintiff tort suits have been filed against the Department's current and former contractors in which the plaintiffs seek damages for alleged exposures to radioactive and/or toxic substances as a result of the historic operations of the Department's nuclear facilities. The most significant of these cases arise out of operations of the facilities at Rocky Flats, Colorado; Hanford, Washington; Paducah, Kentucky; Portsmouth (Piketon), Ohio; Mound, Ohio; Yucca Mountain, Nevada; and Brookhaven, New York. Collectively, damages sought in these cases total approximately $110 billion.

  These cases are being vigorously defended, and two cases have gone to trial. In the Rocky Flats litigation, the jury returned a substantial verdict in favor of the plaintiffs; this verdict will be appealed when a judgment is entered on the verdict. In the Hanford litigation, ten of twelve plaintiffs' claims were resolved in favor of the defendants, and relatively small judgments were entered in favor of two plaintiffs. It is expected that proceedings on the remaining Hanford plaintiffs' claims will be suspended while appeals are prosecuted from the judgments on these "bellwether" claims. Additionally, some cases have been dismissed by trial court based on legal rulings and appealed to the courts of appeal, and the final resolution of these issues has not been determined.

  Based on the resolution of prior similar litigation, and the favorable results obtained to date in most of the pending cases, the Department believes that the likelihood of liability in many of these cases is remote, and that in those cases were liability is reasonably possible, any liability that might ultimately be imposed would be significantly less than what the plaintiffs seek.

- Uranium Enrichment Services Pricing – This litigation concerns whether electric utilities that purchased uranium enrichment services from the Department are entitled to retroactive price reductions based on the alleged inclusion of inappropriate costs in the prices the Government charged for enrichment services. Six cases were filed involving the claims of 35 utilities. In aggregate, the cases sought approximately $808 million. Three cases were settled in 2005 for a payment of $54.5 million from the Judgment Fund. In April 2006, a fourth case was settled for a payment of $27.5 million. The Government is engaged in settlement negotiations with the plaintiffs in two remaining cases involving eleven utilities.

- Sale and Exchange Agreement – Southern California Edison Company (SCE) filed a complaint alleging that BPA breached the Sale and Exchange Agreement between the parties. The claim arises from BPA converting the Agreement from sale mode to exchange mode for the 2000 delivery period, pursuant to a section of the existing contract, which permits such conversion if BPA has firm surplus power insufficiency, based on the Pacific Northwest Coordination Agreement planning process. SCE does not allege that BPA did not have such an insufficiency at the time of conversion. Instead, SCE argues that BPA violated the implied covenant of good faith and fair dealing and should be equitably estopped from converting the contract to an exchange. SCE requests damages in the amount of $186 million.

  The parties stayed discovery pending mediation. The parties did not settle the case in the mediation. Thereafter, the parties agreed to stay further discovery in order to explore settlement options. A tentative settlement agreement has been reached. However, the settlement will not become final until two conditions are satisfied: (1) the Administrator approves the settlement and (2) SCE receives approval by the California Public Utility Commission. All litigation action has been stayed pending the outcome.

- Slice True-Up Adjustment Charge – Two cases have been filed objecting and challenging BPA's determination of the true-up adjustments charged to Slice customers. One case is currently stayed and oral arguments were conducted on the second case on November 6, 2005. The parties in the second case have negotiated a draft settlement agreement and on July 17, 2006, filed a motion for an immediate stay of 90 days. The motion was granted. In aggregate, plaintiffs in the two cases are seeking up to $164 million.

- Purchase/Sales Commitments and Irrigation Assistance – The PMAs have entered into various agreements for power and transmission purchases and sales that vary in length but generally do not exceed 20 years. Current rates recover the additional costs of the obligations. The sales commitments are arrangements to sell expected surplus generating capabilities at future dates and the purchase commitments are to purchase power at future dates when the PMAs forecast a shortage of generating capability and prices are favorable. These contracts maximize revenues on estimated surplus volumes.

The Northwest Power Act directs BPA to protect, mitigate and enhance fish and wildlife resources to the extent they are affected by federal hydroelectric projects on the Columbia River and its tributaries. BPA makes expenditures and incurs other costs for fish and wildlife consistent with the Northwest Power Activity and the Pacific Northwest Power and Conservation Council's Columbia River Basin Fish and Wildlife Program. In addition, in the wake of certain listings of fish species under the Endangered Species Activity (ESA) as threatened or endangered, BPA is financially responsible for expenditures and other costs arising from conformance with the ESA and certain biological opinions prepared by the National Oceanic and Atmospheric Administration and the Fish and Wildlife Service in furtherance of the ESA.

As directed by legislation, BPA is required to make cash distributions to Treasury for original construction costs of certain Pacific Northwest irrigation projects that have been determined to be beyond the irrigators' ability to pay. These irrigation distributions do not specifically relate to power generation and are required only if doing so does not result in an increase to power rates. Accordingly, these distributions are not considered to be regular operating costs of the power program and are treated as distributions from accumulated net revenues or expenses when paid.

The following table summarizes future purchase power/sales commitments and irrigation assistance.

(in millions)

Fiscal Year	Purchase Power	Sales Commitments	Irrigation Assistance
2007	$ 93	$ 1,707	$ -
2008	43	1,713	3
2009	44	1,718	7
2010	77	1,798	-
2011	78	1,796	-
2012+	1	50	672
Total	**$ 336**	**$ 8,782**	**$ 682**

17. Earmarked Funds

(in millions)

	Nuclear Waste Fund	D&D Fund	USEC	PMAs	SPRO	Other	Total
Balance Sheet as of September 30, 2006							
Assets							
Fund Balance with Treasury	$ 51	$ 26	$ -	$ 1,612	$ -	$ 154	$ 1,843
Investments	17,953	4,310	1,424	-	-	-	23,687
Accounts Receivable	3,833	239	18	524	-	1	4,615
Inventory	-	-	-	82	-	2	84
General Property Plant and Equipment	10	(15)	-	5,909	-	20	5,924
Regulatory Assets	-	-	-	11,354	-	-	11,354
Other Assets	1	-	-	2,737	-	-	2,738
Total Assets	$21,848	$ 4,560	$ 1,442	$ 22,218	$ -	$ 177	$ 50,245
Liabilities and Net Position							
Accounts Payable	$ 43	$ 36	$ -	$ 180	$ -	$ 4	$ 263
Debt	-	-	-	18,041	-	-	18,041
Deferred Revenues and Other Credits	21,742	-	-	2,333	-	4	24,079
Environmental Cleanup and Disposal Liabilities	-	6,937	-	-	-	-	6,937
Pensions and Other Actuarial Liabilities	10	-	-	49	-	-	59
Other Liabilities	14	53	6	233	-	5	311
Contingencies and Commitments	-	-	-	-	-	-	-
Unexpended Appropriations	41	(8)	(1)	-	-	(6)	26
Cumulative Results of Operations	(2)	(2,458)	1,437	1,381	-	172	530
Total Liabilities and Net Position	$21,848	$ 4,560	$ 1,442	$ 22,217		$ 179	$ 50,246
Statement of Net Costs for the Year Ended September 30, 2006							
Program Costs	$ 171	$ 41	$ -	$ 3,982	$ -	$ 35	$ 4,229
Less Earned Revenues	(219)	(166)	-	(4,571)	(615)	(140)	(5,711)
Net Program Costs	$ (48)	$ (125)	$ -	$ (589)	$ (615)	$(105)	$ (1,482)
Costs Not Assigned	-	2,271	-	(4)	-	-	2,267
Net Costs of Operations	$ (48)	$ 2,146	$ -	$ (593)	$ (615)	$(105)	$ 785
Statement of Changes in Net Position for the Year Ended September 30, 2006							
Beginning Balance - Cumulative Results of Operations	$ (62)	$ (766)	$ 1,378	$ 1,009	$ -	40	1,599
Appropriations Used	8	8	-	-	-	8	24
Non Exchange Revenue	-	-	59	-	-	-	59
Transfers - In/(Out) Without Reimbursement	(49)	-	-	(223)	(615)	5	(882)
Imputed Financing	2	-	-	-	-	-	2
Other	41	446	-	-	-	14	501
Net Cost of Operations	58	(2,146)	-	594	615	106	(773)
Ending Balance Cumulative Results	$ (2)	$(2,458)	$ 1,437	$ 1,380	$ -	$ 173	$ 530
Beginning Balance - Unexpended Appropriations	$ -	$ -	$ (1)	$ -	$ -	-	$ (1)
Appropriations Received	50	(8)	-	-	-	2	44
Other Adjustments	(1)	-	-	-	-	-	(1)
Appropriations Used	(8)	-	-	-	-	(8)	(16)
Ending Balance Unexpended Appropriations	$ 41	$ (8)	$ (1)	$ -	$ -	-	32

Nuclear Waste Fund

The Nuclear Waste Policy Act (NWPA) requires the civilian owners and generators of nuclear waste to pay their share of the full cost of the Civilian Radioactive Waste Management Program. The NWPA also established a fee for electricity generated and sold by civilian nuclear power reactors which the Department must collect and annually assess to determine its adequacy. A special NWF within the Department of Treasury of the United States was created to account for the collection fees. Fees are invested in Treasury securities and any interest earned would be available to pay costs incurred by the NWF. The NWPA requires annual financial statements to be prepared as well as reporting of financial performances measures such as the maintenance of liquid reserves and investment strategies.

Decontamination and Decommission Fund

The Energy Policy Act of 1992 established the Decontamination and Decommission Fund (D&D Fund) to pay for the costs of decontaminating and decommissioning of gaseous diffusion facilities through collection of revenues derived from domestic utility assessments and government and appropriations. The Energy Policy Act also requires that balances in the D&D Fund be invested in Treasury securities and any interest earned would be available to pay the costs of environmental remediation. The Energy Policy Act requires annual financial statements to be prepared as well as periodic reporting of financial performance measures relating to fee receipt and investment income.

United States Enrichment Corporation

Upon privatization of the United States Enrichment Corporation (USEC) on July 28, 1998, OMB and Treasury designated the Department as successor to USEC for purposes of disposition of balances remaining in the USEC Fund. Funds in excess of those needed to liquidate USEC liabilities are invested in Treasury securities.

Power Marketing Administrations

The power marketing administrations are funded primarily from four sources. These include contract and borrowing authority, direct receipts generated from the sale of power, annual appropriations from the Department of the Interior's Reclamation Fund, and appropriations from Treasury's General Fund. In most instances, the annual appropriations from the Reclamation Fund and the General Fund are repaid to Interior and Treasury, respectively, from the receipts generated from power sales.

The power marketing administrations' funds exclude those activities financed from annual appropriations from Treasury's General Fund. The funds include only revolving and special funds financed directly from contract and borrowing authority, power sales receipts, and the annual appropriations from the Reclamation Fund.

Strategic Petroleum Reserve Oil Sales

This general fund provides for the acquisition, transportation, and injection of petroleum into the Strategic Petroleum Reserve and for its potential drawdown and distribution. This account uses offsetting collections from the sale of petroleum products in any drawdown.

18. Earned Revenues

(in millions)

	FY 2006		FY 2005 (unaudited)	
Naval Reactors				
Public	$ (11)		$ (10)	
Intragovernmental	-		(8)	
Total Naval Reactors		$ (11)		$ (18)
Energy				
Public	$ (4,971)		$ (4,048)	
Intragovernmental	(64)		(134)	
Total Energy		(5,035)		(4,182)
Environmental Management				
Public	$ (134)		$ 1	
Intragovernmental	(165)		(152)	
Total Environmental Management		(299)		(151)
Nuclear Waste				
Public	$ (838)		$ (762)	
Intragovernmental	(977)		(924)	
Less Deferred Revenue Adjustment	1,592		1,365	
Total Nuclear Waste		(223)		(321)
Reimbursable Programs				
Public	$ (509)		$ (532)	
Intragovernmental	(2,874)		(2,719)	
Total Reimbursable Programs		(3,383)		(3,251)
Other Programs				
Federal Energy Regulatory Commission				
Public (Note 19)	$ (231)		$ (222)	
Other				
Public (Note 19)	27		(13)	
Total Other Programs		(204)		(235)
Total earned revenues		**$ (9,155)**		**$ (8,158)**

Energy

These revenues primarily result from the Department's power marketing activities. The Department's four power marketing administrations market electricity generated primarily by Federal hydropower projects. Preference for the sale of power is given to public bodies and cooperatives. Revenues from selling power and transmission services are used to repay Treasury annual appropriations, interest on the capital investment repayment, borrowings from Treasury, operation and maintenance costs as well as other payment obligations. Revenues collected by the Southeastern, Southwestern, and Western Area Power Administrations on behalf of other agencies are reported as custodial activity (see Note 25).

Due to the disruption of crude oil supplies resulting from Hurricane Katrina in August 2005, the President ordered a drawdown of the Strategic Petroleum Reserve in September 2005. As of September 30, 2006, oil sale proceeds from this drawdown totaled $615 million (see Note 7).

Also included in the Energy revenues were receipts stemming from the 1988 Great Plains Gasification Plant asset purchase agreement. These receipts totaled $79 million and $62 million in FY 2006 and FY 2005, respectively. These receipts were deposited into Treasury's miscellaneous receipts account (see Note 27). Under the terms of the asset purchase agreement, the Department will continue to receive revenue sharing payments, if applicable, through FY 2010.

Environmental Management

These revenues primarily result from assessed fees to domestic utilities to pay for the costs for decontamination and decommissioning DOE's gaseous diffusion facilities used for uranium enrichment services. Revenue from assessments against domestic utilities is recognized when such assessments are authorized by legislation. Revenue recognized includes known adjustments for transfers between utilities and other reconciliation adjustments.

Increases in current and future assessments due to changes in the Consumer Price Index are recognized in each fiscal year as such changes occur. Interest earned on accumulated funds in excess of those needed to pay current program costs totaled $123 million and $145 million for September 30, 2006 and September 30, 2005 (unaudited), respectively.

Nuclear Waste

The Nuclear Waste Policy Act of 1982 requires the Department to assess fees against owners and generators of highlevel radioactive waste and spent nuclear fuel to fund the costs associated with management and disposal activities under the Act. Fees of $558 million and $733 million were assessed as of September 30, 2006, and September 30, 2005 (unaudited), respectively. Interest earned on fees owed and on accumulated funds in excess of those needed to pay current program costs totaled $781 million and $953 million as of September 30, 2006, and September 30, 2005 (unaudited), respectively. Adjustments are made annually to defer the recognition of revenues until earned (i.e., when costs are incurred) for the Civilian Radioactive Waste Management program.

Reimbursable Programs

The Department performs work for other Federal agencies and private companies on a reimbursable work basis and on a cooperative work basis. The Department also has entered into cooperative research and development agreements to increase the transfer of Federally funded technologies to the private sector for the benefit of the U. S. economy.

The Department's policy is to establish prices for materials and services provided to public entities at the Department's full cost. In some cases, the full cost information reported by the Department in accordance with SFFAS No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, exceeds revenues. This results from implementation of provisions contained in the Economy Act of 1932, as amended; the Atomic Energy Act of 1954, as amended; the National Defense Authorization Act for Fiscal Year 1999, which provide the Department with the authority to charge customers an amount less than the full cost of the product or service. Costs attributable to generating intragovernmental reimbursable program revenues were $2,164 million and $2,882 million as of September 30, 2006 and September 30, 2005 (unaudited), respectively.

Federal Energy Regulatory Commission

The Federal Energy Regulatory Commission (FERC) is an independent regulatory organization within the Department that regulates essential aspects of electric, natural gas and oil pipeline industries, and non-Federal hydropower industries. It ensures that the rates, terms, and conditions of service for segments of the electric, and natural gas and oil pipeline industries are just and reasonable; it authorizes the construction of natural gas pipeline facilities; and it ensures that hydropower licensing administration and safety actions are consistent with the public interest. FERC assesses most of its administrative program costs as an annual charge to each regulated entity.

19. Supporting Schedule of Net Cost for Other Programs

(in millions)

	FY 2006		FY 2005 (unaudited)	
Federal Energy Regulatory Commission				
Program costs - public	$ 234		$ 221	
Less earned revenues (Note 18)	(231)		(222)	
		$ 3		$ (1)
Inspector General		46		45
Environment, safety and health		124		147
Other defense activities		210		203
Other programs - public				
Program costs	$ 35		$ 51	
Less earned revenues (Note 18)	26		(75)	
		61		(24)
Total net cost for other programs		**$ 444**		**$ 370**

20. Costs Applied to Reduction of Legacy Environmental Liabilities

Costs applied to reduction of legacy environmental liabilities are current year operating expenditures for the remediation of contaminated facilities and wastes generated from past operations. These amounts are excluded from current year program expenses since the expense was accrued in prior years when the Department recorded the environmental liabilities.

21. Costs Not Assigned

(in millions)

	FY 2006	FY 2005 (unaudited)
Change in unfunded environmental liability estimates (Note 14)	$ 36,299	$ 16,519
Change in spent nuclear fuel contingency (Note 16)	2,000	3,080
Changes in contractor pension and PRB estimates (Notes 9 & 15)	107	1,594
Change in unfunded safety and health liabilities (Note 13)	(304)	(16)
Change in occupational illness program -		
Subtitle B	(520)	502
Subtitle E	(366)	3,631
Uranium enrichment services pricing litigation (Note 16)	28	55
Other	(44)	134

Compensation Program for Occupational Illnesses

The EEOICPA authorized compensation for certain illnesses suffered by employees for the Department, its predecessor agencies, and contractors who performed work for the nuclear weapons program. Subtitle B covers illnesses associated with exposure to radiation, beryllium, or silica. In general, each eligible employee and survivors of deceased employees will receive compensation for the disability or death of that employee in the amount of $150,000 plus the costs of medical care.

The National Defense Authorization Act of 2005 amended the EEOICPA to include Subtitle E, Contractor Employee Compensation. This amendment replaces Subtitle D of the EEOICPA, which provided assistance for the Department in obtaining state workers' compensation benefits. The new program grants workers' compensation benefits to covered employees and their families for illness and death arising from exposure to toxic substances at a DOE facility. The amendment also makes it possible for uranium workers as defined under Section 5 of the Radiation Exposure Compensation Act to receive compensation under Subtitle E for illnesses due to toxic substance exposure at a uranium mine or mill covered under that Act.

As of September 30, 2005, the law makes payments under these programs the responsibility of the DOL. Therefore, the liability is recorded by the DOL and changes in the total liability are recognized by the Department as imputed costs and imputed financing source.

22. Nuclear Waste Fund Offsetting Receipts, Deferred

The Department defers the recognition of revenues related to the fees paid by owners and generators of spent nuclear fuel, and the interest earned on the invested balance of these funds, to the extent that the receipts exceed current year costs for developing and managing a permanent repository for spent nuclear fuel generated by civilian reactors. In addition, market value adjustments for Treasury securities of the Nuclear Waste Fund are not recognized as revenues in the current period unless redeemed by the Department. The gross amount of receipts, interest collected, and the market value adjustments for zero coupon bond investments are reported as offsetting receipts on the Consolidated Statements of Financing. Therefore, a reconciling amount is reported for the portion of the offsetting receipts for which revenues are not recognized in the current period.

23. Statement of Budgetary Resources

(in millions)

The Statement of Budgetary Resources is presented on a combined, rather than a consolidated, basis in accordance with OMB guidance.

Adjustments to Beginning Balances of Budgetary Resources:

	FY 2006	FY 2005 (Unaudited)
Prior year unobligated balance, net - end of period		
Available, apportioned	$ 2,588	$ 2,538
Exempt from apportionment	24	12
Not available	1,629	1,486
Total - prior year unobligated balance	$ 4,241	$ 4,036
Other adjustments	3	-
Current year unobligated balance, start of period	**$ 4,244**	**$ 4,036**

Unobligated Balances Not Available:

	FY 2006	FY 2005 (Unaudited)
United States Enrichment Corporation Fund	$ 1,414	$ 1,383
Uranium Sales & Remediation	$ 100	-
Reimbursable work/collections in excess of amount anticipated	248	224
Prior year deobligations in excess of apportioned amount	19	11
Expired appropriations and other amounts not apportioned	21	11
Total unobligated balances not available (Note 3)	**$ 1,802**	**$ 1,629**

Unobligated balances not available represent budgetary resources that have not been apportioned to the Department.

Details of Unpaid Obligations:

	FY 2006	FY 2005 (Unaudited)
Undelivered Orders	10,676	10,577
Accounts Payable	$ 6,817	$ 6,655
Total unpaid Obligations	**$ 17,493**	**$ 17,232**

Reconciliation to Appropriations Received on the Statements of Changes in Net Position:

	FY 2006	FY 2005 (Unaudited)
Appropriations received on the Combined Statements of Budgetary Resources	$ 25,725	$ 25,062
Less:		
Special and trust fund appropriated receipts	(1,118)	(1,136)
Appropriated capital owed	(98)	(43)
Appropriations made available from previous year	(257)	(101)
Anticipated appropriations - not yet realized	(221)	-
Appropriations received on the Statement of Changes in Net Position	**$ 24,031**	**$ 23,782**

Reconciliation to the Budget:

	FY 2005 (Unaudited)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources as published	$ 36,117	$ 31,876	$ (3,236)	$ 21,367
OMB adjustments made to exclude:				
United States Enrichment Corporation	(1,383)	-	-	33
Western Area Power adjustment to Interior Reclamation Fund	-	-	(39)	(39)
Expired accounts	(10)	-	-	-
Other	4	3	(11)	(14)
Budget of the United States Government	**$ 34,728**	**$ 31,879**	**$ (3,286)**	**$ 21,347**

The FY 2005 (unaudited) Combined Statement of Budgetary Resources is reconciled to the President's Budget that was published in February 2006. The President's Budget containing actual FY 2006 balances is expected to be published and available on the OMB web site, www.whitehouse.gov/omb, in February 2007.

24. Increases/(Decreases) in Unfunded Liability Estimates

(in millions)

	FY 2006	FY 2005 (unaudited)
Change in unfunded environmental liability estimates (Note 14)	$ 36,299	$ 16,519
Spent nuclear fuel contingency (Note 16)	2,000	3,080
Change in contractor net pension and PRB estimates (Notes 9 and 15)	1,321	1,620
Change in unfunded safety and health liabilities (Note 13)	(304)	(17)
Change in other unfunded liabilities	220	(2)
Total increases in unfunded liabilities	**$ 39,536**	**$ 21,200**

25. Custodial Activities

(in millions)

	FY 2006	FY 2005 (unaudited)
Cash collections		
Power marketing administrations - Earmarked	$ 540	$ 657
Petroleum Pricing Violation Escrow Fund	17	23
Federal Energy Regulatory Commission - Earmarked	40	53
Total cash collections for custodial activities	**$ 597**	**$ 733**

Power Marketing Administrations

The Southeastern, Southwestern, and Western Area Power Administrations are responsible for collecting and remitting to the Department of the Treasury and the Department of the Interior revenues attributable to the hydroelectric power projects owned and operated by the Department of Defense, U.S. Army Corps of Engineers; the Department of the Interior, Bureau of Reclamation; and the Department of State, International Boundary and Water Commission. These revenues are reported as custodial activities of the Department.

Petroleum Pricing Violation Escrow Fund

Custodial revenues for the Petroleum Pricing Violation Escrow Fund result primarily from interest earned from investment of the fund balance which is invested in U.S. Treasury Bills and certificates of deposit with minority owned financial institutions, pending determination of the disposition of the funds. Funds are disbursed to individuals and groups who are able to provide proof of financial injury related to the violations of Petroleum Pricing Regulations during the 1970s and early 1980s. The Department also distributes funds to the U.S. Treasury and to the States, Possessions, and Territories of the United States.

26. Depreciation and Amortization

(in millions)

	FY 2006	FY 2005 (unaudited)
Depreciation of property, plant and equipment	$ 1,455	$ 1,692
Amortization		
Premiums and discounts on Treasury investments	(649)	(513)
Other	114	149
Total depreciation and amortization	**$ 920**	**$ 1,328**

27. Transfers In/Out

(in millions)

	FY 2006	FY 2005 (unaudited)
Transfer of Compensation Program for Occupational Illnesses to Department of Labor (Note 21)	$ -	$ 810
Transfer of Royalty-In-Kind oil from the Department of the Interior (Note 9)		1,181
Transfer of SPRO sales receipts to Treasury (Note 7)	(615)	
Transfer of Great Plains Gasification Plant revenue sharing receipts to Treasury (Note 18)	(82)	(62)
All other transfers, net	32	203
Total Transfers In/Out Without Reimbursement	**$ (665)**	**$ 2,132**

28. Imputed Financing

(in millions)

	FY 2006	FY 2005 (unaudited)
Increase/(Decrease) in occupational illnesses liability (Note 21)	$ (494)	$ 4,133
OPM imputed costs (Note 1)	89	91
Payments made from Treasury's Judgment Fund (Note 1)	-	55
Total imputed financing from costs absorbed by others	**$ (405)**	**$ 4,279**

CONSOLIDATING SCHEDULES

U. S. Department of Energy
Consolidating Schedules - Balance Sheets
As of September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
ASSETS:				
Intragovernmental Assets:				
Fund Balance with Treasury	$ 59	$ 1,583	$ 15,705	$ -
Investments, Net	-	-	23,767	-
Accounts Receivable, Net	4	26	1,363	(790)
Regulatory Assets	-	5,457	-	-
Other Assets	-	1	19	-
Total Intragovernmental Assets	$ 63	$ 7,067	$ 40,854	$ (790)
Investments, Net	-	-	210	-
Accounts Receivable, Net	20	531	3,479	-
Inventory, Net:				
Strategic Petroleum and Northeast Home Heating Oil Reserve	-	-	19,172	-
Nuclear Materials	-	-	21,245	-
Other Inventory	-	86	372	-
General Property, Plant, and Equipment, Net	10	6,070	18,259	-
Regulatory Assets	-	5,954	-	-
Other Non-Intragovernmental Assets	-	2,736	1,015	-
Total Assets	$ 93	$ 22,444	$ 104,606	$ (790)
LIABILITIES:				
Intragovernmental Liabilities:				
Accounts Payable	$ 3	$ 5	$ 242	$ (170)
Debt	-	10,758	-	-
Deferred Revenues and Other Credits	-	9	690	(619)
Other Liabilities	17	48	187	-
Total Intragovernmental Liabilities	$ 20	$ 10,820	$ 1,119	$ (789)
Accounts Payable	10	168	3,498	-
Debt Held by the Public	-	6,600	-	-
Deferred Revenues and Other Credits	-	2,310	21,389	-
Environmental Cleanup and Disposal Liabilities	-	-	218,958	-
Pension and Other Actuarial Liabilities	-	53	11,749	-
Other Non-Intragovernmental Liabilities	48	277	2,674	-
Contingencies and Commitments	-	-	7,020	-
Total Liabilities	$ 78	$ 20,228	$ 266,407	$ (789)
NET POSITION:				
Unexpended Appropriations	$ -	$ -	$ -	$ -
Unexpended Appropriations- Earmarked Funds	-	-	35	-
Unexpended Appropriations- Other Funds	9	-	9,868	-
Cumulative Results of Operations	-	-	-	-
Cumulative Results of Operations - Earmarked Funds	-	1,346	(7,852)	-
Cumulative Results of Operations - Other Funds	5	870	(163,852)	-
Total Net Position	$ 14	$ 2,216	$ (161,801)	$ -
Total Liabilities and Net Position	$ 92	$ 22,444	$ 104,606	$ (789)

See indepedent auditor's report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 17,347	$ 113	$ 922	$ 14,599	$ -	$ 15,634
23,767	-	-	22,197	-	22,197
603	-	18	1,621	(987)	652
5,457	-	4,536	-	-	4,536
20	-	1	90	(70)	21
$ 47,194	$ 113	$ 5,477	$ 38,507	$ (1,057)	$ 43,040
210	-	-	230	-	230
4,030	20	425	3,545	-	3,990
19,172	-	-	19,314	-	19,314
21,245	-	-	21,285	-	21,285
458	-	88	356	-	444
24,339	9	6,067	17,114	-	23,190
5,954	-	5,653	-	-	5,653
3,751	-	2,978	1,613	-	4,591
$ 126,353	$ 142	$ 20,688	$ 101,964	$ (1,057)	$ 121,737
$ 80	$ 2	$ 13	$ 311	$ (270)	$ 56
10,758	-	9,958	-	-	9,958
80	-	57	855	(787)	125
252	(7)	62	114	-	169
$ 11,170	$ (5)	$ 10,090	$ 1,280	$ (1,057)	$ 10,308
3,676	7	149	3,727	-	3,883
6,600	-	6,574	-	-	6,574
23,699	-	1,812	19,780	-	21,592
218,958	-	-	189,710	-	189,710
11,802	-	55	11,672	-	11,727
2,999	120	197	3,347	-	3,664
7,020	-	6	5,052	-	5,058
$ 285,924	$ 122	$ 18,883	$ 234,568	$ (1,057)	$ 252,516
$ -	$ 14	$ -	$ 8,964	$ -	$ 8,978
35	-	-	-	-	-
9,877	-	-	-	-	-
-	6	1,805	(141,568)	-	(139,757)
(6,506)	-	-	-	-	-
(162,977)	-	-	-	-	-
$ (159,571)	$ 20	$ 1,805	$ (132,604)	$ -	$ (130,779)
$ 126,353	$ 142	$ 20,688	$ 101,964	$ (1,057)	$ 121,737

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Net Cost
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
STRATEGIC GOALS:				
Defense:				
Nuclear Weapons Stewardship:				
Total Program Costs	$ -	$ -	$ 6,792	$ -
Nuclear Nonproliferation:				
Total Program Costs	$ -	$ -	$ 1,215	$ -
Naval Reactors:				
Program Costs	-	-	782	-
Less: Earned Revenues	-	-	(11)	-
Net Cost of Naval Reactors	$ -	$ -	$ 771	$ -
Net Cost of Defense	$ -	$ -	$ 8,778	$ -
Energy:				
Program Costs	-	3,862	3,052	(79)
Less: Earned Revenues	-	(4,393)	(712)	67
Net Cost of Energy	$ -	$ (531)	$ 2,340	$ (12)
Science:				
Total Program Costs	$ -	$ -	$ 3,731	$ -
Environment:				
Environmental Management:				
Program Costs	-	-	6,115	(446)
Less: Earned Revenues	-	-	(300)	-
Net Cost of Environmental Management	$ -	$ -	$ 5,815	$ (446)
Nuclear Waste:				
Program Costs	-	-	484	-
Less: Earned Revenues	-	-	(219)	
Net Cost of Nuclear Waste	$ -	$ -	$ 265	$ -
Net Cost of Environment	$ -	$ -	$ 6,080	$ (446)
Net Cost of Strategic Goals	$ -	$ (531)	$ 20,929	$ (458)
OTHER PROGRAMS:				
Reimbursable Programs:				
Program Costs	-	159	3,234	-
Less: Earned Revenues	-	(199)	(3,184)	-
Net Cost of Reimbursable Programs	$ -	$ (40)	$ 50	$ -
Other Programs:				
Program Costs	234	-	516	(101)
Less: Earned Revenues	(231)	-	(75)	101
Net Cost of Other Programs	$ 3	$ -	$ 441	$ -
Costs Applied to Reduction of Legacy Environmental Liabilities	$ -	-	(6,108)	-
Costs Not Assigned	$ -	$ -	$ 37,201	$ -
Net Cost of Operations	$ 3	$ (572)	$ 52,501	$ (458)

See indepedent auditor's report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 6,792	$ -	$ -	$ 6,779	$ -	$ 6,779
$ 1,215	$ -	$ -	$ 1,191	$ -	$ 1,191
782	-	-	810	-	810
(11)	-	-	(18)	-	(18)
$ 771	$ -	$ -	$ 792	$ -	$ 792
$ 8,778	$ -	$ -	$ 8,762	$ -	$ 8,762
6,835	-	3,620	3,050	(53)	6,617
(5,038)	-	(4,063)	(158)	39	(4,182)
$ 1,797	$ -	$ (443)	$ 2,892	$ (14)	$ 2,435
$ 3,731	$ -	$ -	$ 3,565	$ -	$ 3,565
5,669	-	-	7,178	(459)	6,719
(300)	-	-	(151)	-	(151)
$ 5,369	$ -	$ -	$ 7,027	$ (459)	$ 6,568
484	-	-	521	-	521
(219)	-	-	(321)	-	(321)
$ 265	$ -	$ -	$ 200	$ -	$ 200
$ 5,634	$ -	$ -	$ 7,227	$ (459)	$ 6,768
$ 19,940	$ -	$ (443)	$ 22,446	$ (473)	$ 21,530
3,393	-	173	3,141	-	3,314
(3,383)	-	(151)	(3,100)	-	(3,251)
$ 10	$ -	$ 22	$ 41	$ -	$ 63
649	221	-	546	(100)	667
(205)	(222)	-	(113)	100	(235)
$ 444	$ (1)	$ -	$ 433	$ -	$ 432
(6,108)	-	-	(6,637)	-	(6,637)
$ 37,201	$ -	$ -	$ 25,499	$ -	$ 25,499
$ 51,474	$ (1)	$ (421)	$ 41,782	$ (473)	$ 40,887

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Changes in Net Position
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
CUMULATIVE RESULTS OF OPERATIONS:				
Beginning Balances	$ 6	$ 1,805	$ (141,570)	$ -
Budgetary Financing Sources:				
Appropriations Used	$ 5	$ -	$ 22,861	$ -
Nonexchange Revenue	-	-	62	-
Donations and Forfeitures of Cash	-	-	13	-
Transfers - In/(Out) Without Reimbursement	43	(160)	(49)	-
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Cash	-	1	-	-
Transfers - In/(Out) Without Reimbursement (Note 27)	(55)	-	(610)	-
Imputed Financing from Costs Absorbed by Others	10	-	(415)	-
Other	-	-	503	(459)
Total Financing Sources	$ 3	$ (159)	$ 22,365	$ (459)
Net Costs of Operations	(3)	573	(52,497)	459
Net Change	$ -	$ 414	$ (30,132)	$ -
Total Cumulative Results of Operations	$ 6	$ 2,219	$ (171,702)	$ -
UNEXPENDED APPROPRIATIONS:				
Beginning Balances	$ 14	$ -	$ 8,966	$ -
Budgetary Financing Sources:				
Appropriations Received	-	-	24,031	-
Appropriations Transferred - In/(Out)	-	-	17	-
Other Adjustments	-	-	(249)	-
Appropriations Used	(5)	-	(22,861)	-
Total Budgetary Financing Sources	$ (5)	$ -	$ 938	$ -
Total Unexpended Appropriations	$ 9	$ -	$ 9,904	$ -
Net Position	$ 15	$ 2,219	$ (161,798)	$ -

See indepedent auditor's report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ (139,759)	$ 3	$ 1,106	$ (130,296)	$ -	$ (129,187)
$ 22,866	$ 4	$ 4	$ 23,703	$ -	$ 23,711
62	-	-	35	-	35
13	-	-	13	-	13
(166)	-	(141)	(13)	-	(154)
1	-	340	-	-	340
(665)	(15)	47	2,100	-	2,132
(405)	11	-	4,268	-	4,279
44	2	28	404	(473)	(39)
$ 21,750	$ 2	$ 278	$ 30,510	$ (473)	$ 30,317
(51,468)	1	421	(41,782)	473	(40,887)
$ (29,718)	$ 3	$ 699	$ (11,272)	$ -	$ (10,570)
$ (169,477)	$ 6	$ 1,805	$ (141,568)	$ -	$ (139,757)
$ 8,980	$ 18	$ 4	$ 8,762	$ -	$ 8,784
24,031	-	-	23,782	-	23,782
17	-	-	312	-	312
(249)	-	-	(189)	-	(189)
(22,866)	(4)	(4)	(23,703)	-	(23,711)
$ 933	$ (4)	$ (4)	$ 202	$ -	$ 194
$ 9,913	$ 14	$ -	$ 8,964	$ -	$ 8,978
$ (159,564)	$ 20	$ 1,805	$ (132,604)	$ -	$ (130,779)

See indepedent auditor's report.

U. S. Department of Energy
Combining Schedules of Budgetary Resources
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
BUDGETARY RESOURCES				
Unobligated balance, Brought Forward, October 1	$ 9	$ 165	$ 4,070	$ 4,244
Recoveries of Prior Year Unpaid Obligations	-	-	47	47
Budget Authority:				
Appropriations	$ 223	$ 345	$ 25,157	$ 25,725
Borrowing Authority	-	270	-	270
Contract Authority	-	-	-	-
Spending Authority from Offsetting Collections:				
Earned:				
Collected	220	4,018	3,344	7,582
Change in Receivables from Federal sources	-	107	(72)	35
Change in Unfilled Customer Orders:				
Advances Received	-	(38)	68	30
Without Advance from Federal Sources	-	4	(607)	(603)
Anticipated For Rest of Year, Without Advance	-	-	-	-
Subtotal	$ 443	$ 4,706	$ 27,890	$ 33,039
Nonexpenditure Transfers, Net, Anticipated and Actual	-	(69)	17	(52)
Temporarily not Available Pursuant to Public Law	-	(2)	(264)	(266)
Permanently Not Available	-	(565)	(255)	(820)
Total Budgetary Resources	$ 452	$ 4,235	$ 31,505	$ 36,192
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred:				
Direct	$ 227	$ 378	$ 24,096	$ 24,701
Exempt from Apportionment	-	2,842	142	2,984
Reimbursable	-	629	2,620	3,249
Total Obligations Incurred	$ 227	$ 3,849	$ 26,858	$ 30,934
Unobligated Balance:				
Apportioned	6	151	3,052	3,209
Exempt from Apportionment	-	214	33	247
Unobligated Balance Not Available	220	21	1,561	1,802
Total Status of Budgetary Resources	$ 453	$ 4,235	$ 31,504	$ 36,192
CHANGE IN OBLIGATED BALANCE				
Obligated Balance, Net:				
Unpaid Obligations, Brought Forward, October 1	$ 20	$ 2,079	$ 15,133	$ 17,232
Less: Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	-	(312)	(4,375)	$ (4,687)
Total Unpaid Obligated Balance, Net, October 1	$ 20	$ 1,767	$ 10,758	$ 12,545
Obligations Incurred	$ 227	$ 3,848	$ 26,859	$ 30,934
Less: Gross Outlays	(224)	(3,307)	(27,095)	(30,626)
Less: Recoveries of Prior Year Unpaid Obligations, Actual	-	-	(47)	(47)
Change in Uncollected Customer Payments from Federal Sources	-	(111)	679	568
	$ 23	$ 2,197	$ 11,154	$ 13,374
Obligated Balance, Net, End of Period:				
Unpaid Obligations	$ 23	$ 2,620	$ 14,850	17,493
Less: Uncollected Customer Payments from Federal Sources	-	(423)	(3,696)	(4,119)
Total, Unpaid Obligated Balance, Net, End of Period	$ 23	$ 2,197	$ 11,154	$ 13,374
NET OUTLAYS				
Gross Outlays	$ 224	$ 3,307	$ 27,095	$ 30,626
Less: Offsetting collections	(220)	(3,980)	(3,412)	(7,612)
Less: Distributed Offsetting Receipts	(7)	(477)	(2,818)	(3,302)
Net Outlays	$ (3)	$ (1,150)	$ 20,865	$ 19,712

See indepedent auditor's report.

FY 2005 (unaudited)			
Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Consolidated
$ 6	$ 161	$ 3,869	$ 4,036
-	-	34	34
			-
3	213	24,846	25,062
-	315	-	315
-	1,018	-	1,018
210	3,786	3,228	7,224
-	50	81	131
-	17	13	30
-	(2)	214	212
-	-	-	-
$ 213	$ 5,397	$ 28,382	$ 33,992
-	(73)	242	169
-	(1)	(265)	(266)
-	(1,639)	(209)	(1,848)
$ 219	$ 3,845	$ 32,053	$ 36,117
$ 210	$ 226	$ 24,443	$ 24,879
-	2,923	330	3,253
-	531	3,213	3,744
$ 210	$ 3,680	$ 27,986	$ 31,876
9	164	2,415	2,588
-	-	24	24
-	1	1,628	1,629
$ 219	$ 3,845	$ 32,053	$ 36,117
$ 26	$ 2,346	$ 14,875	$ 17,247
-	$ (264)	(4,080)	$ (4,344)
$ 26	$ 2,082	$ 10,795	$ 12,903
210	3,680	27,986	31,876
(215)	(3,948)	(27,693)	(31,856)
-	-	(34)	(34)
-	(48)	(295)	(343)
$ 21	$ 1,766	$ 10,759	$ 12,546
$ 20	$ 2,079	$ 15,133	$ 17,232
-	(312)	(4,375)	(4,687)
$ 20	$ 1,767	$ 10,758	$ 12,545
$ 215	$ 3,948	27,693	$ 31,856
(210)	(3,803)	(3,240)	(7,253)
(18)	(739)	(2,479)	(3,236)
$ (13)	$ (594)	$ 21,974	$ 21,367

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Financing
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
RESOURCES USED TO FINANCE ACTIVITIES:				
Budgetary Resources Obligated:				
Obligations Incurred	$ 227	$ 3,848	$ 26,853	$ -
Less: Spending Authority from Offsetting Collections and Recoveries	(220)	(4,092)	(2,773)	-
Obligations, Net of Offsetting Collections and Recoveries	$ 7	$ (244)	$ 24,080	$ -
Less: Offsetting Receipts	(7)	(478)	978	-
Net Obligations	$ -	$ (722)	$ 25,058	$ -
Other Resources:				
Donations	-	1	-	-
Imputed Financing from Costs Absorbed by Others	10	-	(415)	-
Transfers-In/(Out) Without Reimbursement	(55)	-	(610)	-
Nuclear Waste Fund Offsetting Receipts, Deferred	-	-	(1,327)	-
Other	-	-	15	(12)
Net Other Resources Used to Finance Activities	$ (45)	$ 1	$ (2,337)	$ (12)
Total Resources Used to Finance Activities	$ (45)	$ (721)	$ 22,721	$ (12)
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF OPERATIONS:				
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ 1	$ (132)	$ (440)	$ -
Resources that Finance the Acquisition of Assets	-	(202)	(2,903)	-
Resources that Fund Expenses Recognized in Prior Periods	-	(18)	(7,303)	-
Budgetary Offsetting Collections and Receipts that Do Not Affect the Net Cost of Operations	-	50	338	(476)
Other Resources and Adjustments	(3)	(340)	(114)	29
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ (2)	$ (642)	$ (10,422)	$ (447)
Total Resources Used to Finance the Net Cost of Operations	$ (47)	$ (1,363)	$ 12,299	$ (459)
NET COST OF ITEMS THAT DO NOT REQUIRE OR GENERATE RESOURCES IN CURRENT PERIOD:				
Components Requiring or Generating Resources in Future Periods:				
Increase in Unfunded Liability Estimates	$ 1	247	$ 39,288	$ -
Increase in Exchange Revenue Receivable from the Public	(4)	1	-	-
Total Components Requiring or Generating Resources in Future Periods	$ (3)	$ 248	$ 39,288	$ -
Components Not Requiring or Generating Resources:				
Depreciation and Amortization	3	481	436	-
Revaluation of Assets and Liabilities	-	2	(191)	-
Other	(1)	60	680	-
Total Components Not Requiring or Generating Resources	$ 2	$ 543	$ 925	$ -
Total Net Cost of Items that Do Not Require or Generate Resources in Current Period	$ (1)	$ 791	$ 40,213	$ -
NET COST OF OPERATIONS	$ (48)	$ (572)	$ 52,512	$ (459)

See indepedent auditor's report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
$ 30,928	$ 210	$ 3,680	$ 27,986	$ -	$ 31,876
(7,085)	(210)	(3,851)	(3,570)	-	(7,631)
$ 23,843	$ -	$ (171)	$ 24,416	$ -	$ 24,245
493	(18)	(739)	(2,479)	-	(3,236)
$ 24,336	$ (18)	$ (910)	$ 21,937	$ -	$ 21,009
1	-	340	(339)	-	1
(405)	11	-	4,268	-	4,279
(665)	(15)	47	2,100	-	2,132
(1,327)	-	-	2,520	-	2,520
3	-	(495)	473	(14)	(36)
$ (2,393)	$ (4)	$ (108)	$ 9,022	$ (14)	$ 8,896
$ 21,943	$ (22)	$ (1,018)	$ 30,959	$ (14)	$ 29,905
$ (571)	$ 7	$ 55	$ 10	$ -	$ 72
(3,105)	(4)	(320)	(5,426)	-	(5,750)
(7,321)	-	81	(6,428)	-	(6,347)
(88)	18	246	371	(482)	153
(428)	(2)	(160)	(236)	23	(375)
$ (11,513)	$ 19	$ (98)	$ (11,709)	$ (459)	$ (12,247)
$ 10,430	$ (3)	$ (1,116)	$ 19,250	$ (473)	$ 17,658
$ 39,536	$ -	$ 235	$ 20,961	$ -	$ 21,196
(3)	1	1	-	-	2
$ 39,533	$ 1	$ 236	$ 20,961	$ -	$ 21,198
920	3	539	786	-	1,328
(189)	-	4	(182)	-	(178)
739	(2)	(84)	967	-	881
$ 1,470	$ 1	$ 459	$ 1,571	$ -	$ 2,031
$ 41,003	$ 2	$ 695	$ 22,532	$ -	$ 23,229
$ 51,433	$ (1)	$ (421)	$ 41,782	$ (473)	$ 40,887

See indepedent auditor's report.

U. S. Department of Energy
Consolidating Schedules of Custodial Activities
For Years Ended September 30, 2006 and 2005
($ in millions)

	FY 2006			
	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations
SOURCES OF COLLECTIONS:				
Cash Collections:				
Interest	$ -	$ -	$ 17	$ -
Federal Energy Regulatory Commission	40	-	-	-
Power Marketing Administration Custodial Revenue	-	540	-	-
Other Custodial Revenue	-	-	-	-
Total Cash Collections	$ 40	$ 540	$ 17	$ -
Accrual Adjustment	(1)	3	-	-
Total Custodial Revenue	$ 39	$ 543	$ 17	$ -
DISPOSITION OF REVENUE:				
Transferred to Others:				
Department of the Treasury	(38)	(127)	-	-
Army Corps of Engineers	-	3	-	-
Bureau of Reclamation	-	(333)	-	-
Others	(3)	(35)	-	-
Decrease in Amounts to be Transferred	1	(57)	(17)	-
Collections Used for Refunds and Other Payments	-	-	-	-
Retained by the Department	-	(4)	-	-
Net Custodial Activity	$ (1)	$ (10)	$ -	$ -

See indepedent auditor's report.

	FY 2005 (unaudited)				
Consolidated	Federal Energy Regulatory Commission	Power Marketing Administrations	All Other DOE Programs	Eliminations	Consolidated
17	$ -	$ -	$ 20	$ -	$ 20
40	53	-	-	-	53
540	-	657	-	-	657
-	-	-	3	-	3
$ 597	$ 53	$ 657	$ 23	$ -	$ 733
2	(8)	(1)	(10)	-	(19)
$ 599	45	656	13	-	714
(165)	(31)	(584)	(9)	-	(624)
3	(5)	-	-	-	(5)
(333)	(5)	(74)	-	-	(79)
(38)	(3)	-	-	-	(3)
(73)	(1)	2	(4)	-	(3)
-	-	-	-	-	
(4)	-	-	-	-	-
$ (11)	$ -	$ -	$ -	$ -	$ -

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REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

(RSSI)

Research & Development (unaudited)

The Department of Energy is the single largest Federal government supporter of basic research in the physical sciences in the United States, providing more than 40 percent of total Federal funding. It oversees, and is the principal Federal funding agency of, the Nation's research programs in high energy physics, nuclear physics and fusion energy sciences. Our diverse research portfolio supports tens of thousands of principal investigators, post-doctoral students and graduate students tackling some of the most challenging scientific questions of our era.

In accordance with Statement of Federal Financial Accounting Standard (SFFAS) Number (No.)8 - Supplementary Stewardship Reporting Chapter 7 - Research and Development, the Department reports the following expenses for research and development programs that are intended to increase or maintain national economic productive capacity or yield other future benefits. Investments in research and development refer to those expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products or processes with the expectation of maintaining or increasing national economic productive capacity or yielding other future benefits.

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30 (in millions)

	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
BASIC						
Nuclear Nonproliferation				$3.2	$0.3	$3.5
Energy Security						
Energy Efficiency				19.9	5.1	25.0
Fossil Energy				6.0	1.7	7.7
Power Marketing Administration***				-	-	-
World-Class Scientific Research				2,808.7	735.5	3,544.2
Environmental Management				-	-	-
TOTAL BASIC				$2,837.8	$742.6	$3,580.4

Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
$13.2	$1.0	$14.2	$10.1	$1.5	$11.6	$8.4	$1.3	$9.7
30.3	4.6	34.9	24.0	3.5	27.5	30.2	5.4	35.6
7.1	0.8	7.9	10.0	1.2	11.2	5.9	1.5	7.4
3.4	-	3.4	3.3	-	3.3	3.2	-	3.2
2,581.3	583.4	3,164.7	2,448.0	594.0	3,042.0	2,598.0	506.0	3,104.0
-	-	-	-	-	-	-	-	-
$2,635.3	$589.8	$3,225.1	$2,495.4	$600.2	$3,095.6	$2,645.7	$514.2	$3,159.9

Supplementary Stewardship Reporting on Research and Development Costs for Fiscal Years ending September 30 (in millions)

	FY 2006			FY 2005		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
APPLIED						
Nuclear Weapons Stewardship				1,898.6	192.9	2,091.5
Nuclear Nonproliferation				73.2	5.5	78.7
Energy Security						
Energy Efficiency				251.4	34.7	286.1
Fossil Energy				157.4	50.3	207.7
Nuclear Energy				52.5	35.8	88.3
Electric Transmission and Distribution				55.6	4.1	59.7
Power Marketing Administration**				9.7	-	9.7
World-Class Scientific Research				-	-	-
Environmental Management				15.6	1.2	16.8
Nuclear Waste				144.0	1.9	145.9
Other Defense Activities				-	-	-
TOTAL APPLIED				$2,658.0	$326.4	$2,984.4

	FY 2006			FY 2005		
	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
DEVELOPMENT						
Nuclear Weapons Stewardship				$467.2	$106.8	$574.0
Nuclear Nonproliferation				53.6	2.8	56.4
Naval Reactors				724.7	40.3	765.0
Energy Security						
Energy Efficiency				335.0	37.2	372.2
Fossil Energy				172.2	52.9	225.1
Nuclear Energy				1.2	0.8	2.0
Electric Transmission and Distribution				13.5	3.2	16.7
Power Marketing Administration**				2.1	0.0	2.1
Environmental Management				36.4	3.6	40.0
Other Defense Activities				13.2	0.4	13.6
TOTAL DEVELOPMENT				$1,819.1	$248.0	$2,067.1
TOTAL RESEARCH AND DEVELOPMENT				$7,314.9	$1,317.0	$8,631.9

**Full R&D investments for the Power Marketing Administration's are included under direct costs of the Energy Security Goal.

FY 2004			FY 2003			FY 2002		
Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
$1,888.0	$405.0	$2,293.0	$1,660.5	$454.5	$2,115.0	$1,700.0	$379.6	$2,079.6
60.4	4.4	64.8	95.2	13.8	109.0	72.2	11.0	83.2
202.4	20.1	222.5	169.7	21.9	191.6	180.4	11.8	192.2
176.5	19.5	196.0	186.7	21.7	208.4	131.6	10.3	141.9
74.3	6.5	80.8	12.3	1.2	13.5	20.9	5.0	25.9
18.7	2.1	20.8	-	-	-	-	-	-
11.8	-	11.8	11.4	-	11.4	11.1	-	11.1
3.1	0.5	3.6	2.9	0.5	3.4	37.9	4.3	42.2
28.1	4.1	32.2	23.4	4.4	27.8	89.9	20.8	110.7
65.3	1.8	67.1	75.8	1.0	76.8	62.5	2.6	65.1
12.0	5.4	17.4						
$2,540.6	$469.4	$3,010.0	$2,237.9	$519.0	$2,756.9	$2,306.5	$445.4	$2,751.9

FY2004			FY 2003			FY 2002		
Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost	Direct Cost	Depreciation & Other Managerial Cost	Total Cost
$543.4	$121.0	$664.4	$734.3	$221.5	$955.8	$726.6	$175.7	$902.3
49.4	3.1	52.5	66.1	9.9	76.0	83.8	13.3	97.1
667.1	17.7	684.8	621.8	16.3	638.1	653.0	16.6	669.6
422.1	41.8	463.9	352.4	42.8	395.2	403.5	30.3	433.8
192.9	20.8	213.7	202.1	23.0	225.1	167.6	17.4	185.0
20.6	1.6	22.2	16.0	2.4	18.4	-	-	-
38.0	3.2	41.2				-	-	-
8.8	-	8.8	8.7	-	8.7	8.7	-	8.7
65.5	9.6	75.1	54.7	10.3	65.0	134.8	31.2	166.0
26.3	12.4	38.7	32.0	15.3	47.3	4.3	0.5	4.8
$2,034.1	$231.2	$2,265.3	$2,088.1	$341.5	$2,429.6	$2,182.3	$285.0	$2,467.3
$7,210.0	$1,290.4	$8,500.4	$6,821.4	$1,460.7	$8,282.1	$7,134.5	$1,244.6	$8,379.1

> Research and Development Activities and Significant Accomplishments by General Goal

General Goal 1: Nuclear Weapons Stewardship

– Applied & Development

Nuclear Weapons Stewardship activities: (1) provide the scientific understanding and engineering development capabilities necessary to support near-term and long-term requirements of the nuclear stockpile; (2) provide scientific understanding of the nuclear package of the weapons systems in order to sustain our ability to certify the nuclear weapons stockpile, support stockpile refurbishment and life extension and to provide capabilities and components necessary to support maintenance and refurbishment in the absence of nuclear testing; and (3) ensure the weapons complex and its facilities and infrastructure are in place to manufacture and certify the 21st century nuclear weapons stockpile.

The applied research and development program of the science campaign helps to support the nuclear weapons stewardship goal by ensuring that our nuclear weapons will continue to serve their essential deterrence role. One key goal of the National Nuclear Security Administration is to develop improved capabilities to assess the safety, reliability and performance of the nuclear package portion of weapons without further underground testing. The Dual-Axis Radiographic Hydrotest Facility (DARHT), located at Los Alamos National Laboratory, is designed to take a rapid sequence of x-ray images of a simulated nuclear weapon implosion. For FY 2006, the Department committed to achieving 60 percent cumulative progress towards conducting the first 2-axis hydrodynamics test at DARHT. The tests are on track to be completed during CY 2008.

General Goal 2: Nuclear Nonproliferation

– Basic, Applied & Development

Activities conducted provide the science and technology required for treaty monitoring and material control, as well as early detection and characterization of the proliferation of weapons of mass destruction and special nuclear materials and improving the technologies leading to major improvements in responding to chemical and biological attacks.

Under the Department's goal to have all worldwide fissile nuclear materials under controls acceptable to the United States by 2025, the nonproliferation verification research and development program will develop new technologies to improve our ability to detect and monitor nuclear explosions. During 2006, NNSA progressed a cumulative 10 percent toward demonstrating the next generation of technologies and methods to detect Uranium-235 Enrichment activities, Plutonium Reprocessing, Special Nuclear Material movement.

General Goal 3: Naval Reactors

– Development

Activities include development, demonstration, improvement, and safe operation of nuclear propulsion plants and reactor cores for application to submarines and surface ships.

The Transformational Technology Core (TTC) reactor plant design is designed to meet increasing demands on the submarine fleet, delivering a significant energy increase to future VIRGINIA-class ships with minimum impact to the overall ship design. For FY 2006, the Department committed to achieve 34 percent on the reactor plant design and core delivery. The target was met, and the program is on track for completion in FY 2015.

General Goal 4: Energy Security

– Basic, Applied &Development

The Department will improve energy security by developing technologies that foster a diverse supply of reliable, affordable and environmentally sound energy by providing for reliable delivery of energy, guarding against energy emergencies, and exploring advanced technologies that make a fundamental improvement in our mix of energy options. Discussed below are contributions from the DOE offices that contribute to the Energy Security general goal.

Energy Efficiency and Renewable Energy – Activities relate to (1) solar technologies; (2) geothermal technologies; (3) wind and hydropower technologies; (4) hydrogen and fuel cell technologies for transportation, stationary, and portable application; (5) energy conservation for the building sector, including residential building, commercial building, and retrofit technologies; (6) biomass technologies; (7) energy efficiency and renewable energy efforts in the federal sector; (8) energy conservation and energy supply efforts in the industry sector; (9) energy conservation for the transportation sector, including automotive alternative fuels and electric vehicles; and, (10) energy conservation and renewable energy for intergovernmental activities including the State Energy Program and Weatherization Program.

The Solar Program focuses on improving performance of solar energy systems and reducing development, production, and installation costs to competitive levels, thereby accelerating large-scale usage across the Nation and making a significant contribution to a clean, reliable and flexible U.S. Energy supply. The Solar program's R&D partner, the National Renewable Energy Laboratory (NREL) achieved a world record 19.5 percent efficient thin-film photovoltaic cell in June. Thin-film technology, such as NREL's copper indium gallium diselenide cell, offers significant cost savings potential over conventional solar technologies because it requires less raw material and enables higher manufacturing throughputs. Rapid progress being made in thin-film technologies is the basis for several new U.S. manufacturing facilities coming on-line this year.

The Wind Program enables wind to compete with conventional fuel throughout the Nation, creating a clean renewable energy option through technology research and development, collaborative efforts, technical support and outreach. The Wind Program's partnership with Clipper Windpower, Inc resulted in their agreements with wind energy developers to supply up to 900 wind turbines over the next five years. This collaboration is on the first U.S. wind turbine designed specifically for operation in lower wind speed (Class 4) wind resource areas. The prototype incorporates many innovations such as a distributed drivetrain, advanced blades with truncated root section airfoils, and advanced controls. The Liberty Wind Turbine will be manufactured in Cedar Rapids, IA, in a manufacturing plant that was opened in the fall of 2005. Cost effective wind turbine operation in the low wind regimes significantly increases the resource areas available for wind energy development in areas much closer to major population centers.

Fossil Energy – Activities relate to (1) improving acceptable technology for advancing power conversion systems for generating electricity and hydrogen from coal; and (2) supporting of advanced technologies for the recovery of oil and natural gas through technologies and development in drilling and offshore oil production, and characterization research.

The Department is committed to developing advanced fossil power systems capable of achieving 45-50 percent efficiency. To support this goal, the gasification technologies program is working towards the commercialization of economical and efficient sulfur removal and/or multicontaminant clean-up. For FY 2006, the Department met its goal to conduct initial pilot scale slipstream field testing of technology capable of 90% mercury removal, and began construction and testing of advanced gas separation technologies. Field testing is a critical step toward developing high performance mercury removal technology that help enable coal fired power plants to economically reduce emissions.

In FY 2006, the Gasification Technologies program moved gas separation, including ceramic membrane, hydrogen separation, CO2 hydrate formation and ceramic membrane air separation, closer to commercialization. This work included progress in developing technologies for both oxygen and hydrogen separation. In the area of creating pure oxygen from air, full size Ion Transport Member Oxygen modules have successfully produced 95% pure oxygen in the subscale engineering prototype facility. This process provides information for further scale-up to a pre-commercial development facility of appropriate capacity. In the area of separating hydrogen, construction of 1.3 lb/day process development unit is underway; the process development unit will test hydrogen separation membrane performance on simulated syngas, which will eventual lead to capital cost reductions of $60-$80 per kW from the baseline of $1200/kW for Integrated coal Gasification Combined Cycle systems and efficiency improvements of >1 efficiency points.

Also in FY 2006, Fossil Energy performed pilot-scale testing and laboratory testing of different CO2 capture technologies. For example, the University of Texas completed a pilot plant testing campaign to evaluate a technology that is capable of at least 90% CO2 capture. Laboratory scale evaluation of membranes developed by Los Alamos National Laboratory and Praxair were also completed. NETL researchers completed the evaluation of solid sorbents for application to both post combustion and pre-combustion CO2 capture. The tests results for the novel tertiary showed potential for significant improvement in cost and performance. All seven Phase II Regional Partnerships were awarded and field testing of CO2 sequestration was initiated at the Zama Oil Field in Zama, Alberta as part of the activities under the Plains CO2 Reduction Partnership. This testing will lead to significant improvement in cost and performance, and initiate field sequestration activities within the Regional Partnerships leading to future sequestration tests.

Nuclear Energy – Accomplishments in FY 2006 include extensive research and development (R&D) into new nuclear generation technologies fostering a diversity of domestic energy supply through public-private partnerships as well as international relationships. The advancement of materials and fuels testing for the next generation of nuclear power plants (NGNP) as well as the attention paid to overhead cost and efficiency measures enabled NE to meet all of its milestones while maintaining high levels of performance.

In FY 2006, the Department met requirements within the Department's Hydrogen Posture plan through accomplishments supporting the commercialization of NGNP by 2015. Sandia National Laboratory completed the report documenting the closed Brayton cycle experiments for steady state, transient and off-normal condition, and submitted the report to Headquarters on June 30, 2006. Successful achievement of this report moves the program closer to selecting an NGNP design by FY 2011, which is necessary to the development and deployment of next-generation advanced reactors by 2025.

Within the Advanced Fuel Cycle Initiative (AFCI), the Department gained a better understanding into the necessary qualifications of a second geologic repository through testing light water reaction transmutation fuel and post irradiation,. R&D within AFCI increased the program's understanding of the nuclear fuel cycle—a knowledge that will contribute significantly to the Department's FY 2008 decision on whether to build a second geologic repository for high level nuclear waste. These achievements also add to the Global Nuclear Energy Partnership (GNEP), which seeks to enable expanded use of economical, carbon-free nuclear energy using a nuclear fuel cycle that enhances energy security while promoting non-proliferation.

Lastly, in FY 2006, the Department focused on activities achieving NRC certification of two advanced nuclear reactor designs, and the review and certification of industry baselines for combined Construction and Operating Licenses (COLs) for new nuclear power plants. Achievement

of this target moves the program closer toward enabling an industry decision to deploy new nuclear power plants by 2010.

Electricity Delivery and Energy Reliability – Research and development activities address high temperature superconductivity, transmission reliability, electric distribution transformation, and innovative energy storage. These activities contribute to the modernization and expansion of the Nation's electricity delivery system to ensure a more reliable and robust electricity supply.

Working to prevent another massive blackout like the one experienced during August 2003, the Department and its partners are implementing the "Eastern Interconnection Phasor Project." This project consists of developing and deploying a robust, widely-available, real-time monitoring and visualization system in the eastern portion of the North American power grid. This next generation system features GPS technology, secure data communications, custom visualization, and advanced controls. The data from the "phasor" measurement instruments are being fed into data archiving and analysis locations to make the project's information readily available to the utilities. The visualization and control systems will allow operators to detect disturbances and take action before problems cascade into widespread outages. During FY 2006, the Department led efforts for the installation and operation of 30 additional measurement units and 2 additional archiving and analysis locations for a cumulative total of 80 measuring units and 8 archiving and analysis locations.

General Goal 5: World-Class Scientific Research Capacity

– Basic & Applied

Research in the areas of (1) advanced scientific computing relevant to the complex problems of the Department and providing world class supercomputer and networking facilities for scientists; (2) basic energy sciences including nuclear sciences, materials sciences, chemical sciences, engineering geosciences, energy biosciences, advanced energy projects and advanced mathematical sciences; (3) biological and environmental research needed to identify, understand, and anticipate the long term health and environmental consequences of energy production, development, and use; (4) fusion energy sciences including broad-based, fundamental research efforts aimed at producing knowledge on fusion; (5) high energy physics activities directed at understanding the nature of matter and energy; (6) nuclear physics activities directed at understanding the fundamental forces and particles of nature as manifested in nuclear matter; and, (7) small business innovative research/technology transfer support for energy related technologies that will significantly benefit US businesses, a technology transfer initiative.

Construction and commissioning of the Spallation Neutron Source (SNS), an accelerator-based neutron source that will provide the most intense pulsed neutron beams in the world for scientific research and industrial development, was completed, and the facility began operations in late FY 2006. The SNS will become the world's leading research facility for study of the structure and dynamics of materials using neutrons. It will operate as a user facility that will enable researchers from the United States and abroad to study the science of materials that forms the basis for new technologies in telecommunications, manufacturing, transportation, information technology, biotechnology and health.

General Goal 6: Environmental Management

– Basic, Applied & Development

Technology development activities (1) to support site closure through technical support and quick responses for highly focused science and technology projects; and (2) develop and provide the scientific and technical rationale to support development of alternative approaches and step improvements for high risk/high cost baseline estimates.

Monitored Natural Attenuation (MNA) is a promising method for treating contaminated groundwater at several legacy waste sites. In the case of chlorinated solvents, MNA often relies on native bacteria living in the subsurface to degrade hazardous contaminants to nontoxic compounds. Office of Science researchers have developed new characterization and modeling tools that can be used to determine if these natural processes are working fast enough to keep groundwater contaminants from flowing into nearby rivers and lakes. These tools were recently used at the Savannah River Site to detect and quantify rates of trichloroethene degradation by underground bacteria. Tests were performed in several wells along groundwater flow paths that extended from a contaminant site to a wetlands complex. The groundwater tracers allow scientists to study the behavior of the targeted contaminants since the tracers exhibit the same behavior as the contaminants and can be uniquely and sensitively analyzed in groundwater even in very contaminated environments. These tests, together with numerical flow and transport models demonstrated that desirable bacteria are present and active and that they are making an important contribution to the reduction of contaminant concentrations. These results can be used to reduce the cost of long-term monitoring and remediation and lead to more secure and effective site cleanup.

General Goal 7: Nuclear Waste

– Applied

Activities are conducted on the long-term storage of high level nuclear waste at a permanent underground repository. Scientific work explores opportunities for better performance in the underground repository and improved cost savings. The work concentrates on four areas: Source Term; Materials Performance; Natural Barriers; and Advanced Technologies.

Of the studies conducted in Source Term, one project has been focusing on the interaction of spent nuclear fuel with the stainless steel component of its waste packaging. Stainless steel is made mostly of iron, and the project has determined that iron performs well in helping

to absorb the radioactive material and prevent it from leaking out of the waste packaging. This finding adds more support to the use of stainless steel in waste packaging for spent fuel.

One materials performance project has been concerned with the interaction of natural materials in the repository, such as dust and rocks, with Alloy 22, the special corrosion resistant metal that makes up the outside of the waste packages. Repository rocks could contact and form crevices on the outside of the waste package. This is a particular concern because corrosion in crevices is known to be aggressive. Studies are showing that stopping the corrosion is possible, and the likelihood and severity of crevice corrosion depends on the material that formed the crevice. Crevice corrosion tests performed at Case Western Reserve University found that crevices formed by ceramic (rock-like) material resulted in no corrosion, but crevices formed by other materials readily corroded under identical conditions. This finding can be an important factor in predicting the evolution of corrosion damage on Alloy 22 and the outside of the waste packages over long periods of time.

In the area of Natural Barriers, water flow through the repository ceiling has been studied. Water flow is important to study because water is the primary means by which nuclear waste could be broken down into radioactive particles and then transported into the surrounding environment. A new 3-D model has been created, and it proves to provide a better understanding of water flow. Preliminary results show that any water that enters the tunnels where the waste is stored will likely travel down the tunnel walls and not drip onto the waste packages. These findings look good for the environmental conditions within the drift tunnels and the resulting performance of the waste packages.

One study in the Advanced Technology area is focusing on an alternative material to Alloy 22, the special metal that makes up the outside of the waste packages. The cost of Alloy 22 is increasing rapidly and its use could be cost prohibitive when production of waste packages commences. The study has found lots of promise in Structurally Amorphous Metal. This substance can be atomized to produce a sprayable powder, and preliminary results show that the powder can be sprayed up to a thickness of 10mm. Ongoing work is investigating its performance in corrosion and adherence to its substrate, and results have been very positive to date. The potential use of Structurally Amorphous Metal represents a significant cost savings. Its cost is less than a third of the current cost of Alloy 22.

Another Advanced Technology project is investigating an alternative technique for welding waste packages. The repository's baseline plan calls for the use of arc welding, a technique that requires 6 to 8 hours to weld one waste package. The project has narrowed its selection to one best alternative called Reduced Pressure Electron Beam welding. Reduced Pressure Electron Beam welding requires only 6 minutes to weld one waste package, which represents a large savings in both cost and time.

REQUIRED SUPPLEMENTARY INFORMATION

(RSI)

(unaudited)

This section of the report provides required supplementary information for the Department on deferred maintenance, budgetary resources by major budget account and intra-governmental balances.

Deferred Maintenance

Deferred maintenance information is a requirement under SFFAS No.6, Accounting for Property, Plant and Equipment and SFFAS No.14, Amendments to Deferred Maintenance which requires deferred maintenance to be disclosed as of the end of each fiscal year. Deferred maintenance is defined in SFFAS No.6 as "maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed for a future period." Estimates were developed for:

Buildings and Other Structures and Facilities	**$XXXX million**
Capital Equipment	**$XX million**
TOTAL	**$XXXX million**

Buildings and Other Structures and Facilities

The condition assessment survey (periodic inspections) method was used in measuring a deferred maintenance estimate for buildings and other structures and facilities except for some structures and facilities where a physical barrier was present (e.g., underground pipe systems). In those cases, where a deficiency is identified during normal operations and correction of the deficiency is past due, a deferred maintenance estimate would be applicable. Also, where appropriate, results from previous condition assessments have been adjusted to estimate current plant conditions. Deferred maintenance for excess property was reported only in situations where maintenance is needed for worker and public health and safety concerns.

The Department determines deferred maintenance and acceptable operating condition through various methods, including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification.

As of September 30, 2006, an amount of $XXXX million of deferred maintenance was estimated to be required to return the facilities to acceptable operating condition. The percentage of active buildings above acceptable operating condition is estimated at XX percent.

Capital Equipment

Pursuant to the cost/benefit considerations provided in SFFAS No. 6, the Department has determined that the requirements for deferred maintenance reporting on personal property (capital equipment) is not applicable to property items with an acquisition cost of less than $100,000, except in situations where maintenance is needed to address worker and public health and safety concerns.

Various methods were used for measuring deferred maintenance and determining acceptable operating condition for the Department's capital equipment including periodic condition assessments, physical inspections, review of work orders, manufacturer and engineering specification, and other methods, as appropriate.

An amount of $XX million of deferred maintenance was estimated to be needed as of September 30, 2006, to return capital equipment assets to acceptable operating condition.

Budgetary Resources by Major Account as of June 30, 2006 ($in millions)

	Fossil Energy R&D 89X0213	Science 89X0222	Energy Supply & Conservation 89-0224	Strategic Petroleum Reserve 89X0233	Weapons Activities 89-0240
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 601	$ 28	$ 29	$ 17	$ 1,094
Recoveries of Prior Year Unpaid Obligations	5	2	2	2	2
Budget Authority	598	3,633	3,223	615	8,517
Nonexpenditure Transfers, Net	(11)	36	4	(43)	-
Authority Not Available	(6)	(36)	(18)	-	(64)
Total Budgetary Resources	$ 1,187	$ 3,663	$ 3,240	$ 591	$ 9,549
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 429	$ 3,138	$ 1,791	$ 1	$ 7,913
Unobligated Balances Available	755	525	1,449	590	1,636
Unobligated Balances Not Available	3	-	-	-	-
Total Status of Budgetary Resources	$ 1,187	$ 3,663	$ 3,240	$ 591	$ 9,549
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 482	$ 2,193	$ 658	$ 40	$ 1,490
Obligations Incurred	429	3,138	1,791	1	7,913
Less: Gross Outlays	(371)	(2,696)	(1,437)	(6)	(6,600)
Obligated Balance Transferred, Net	-	-	62	-	-
Less: Recoveries of PY Obligations, Actual	(5)	(1)	-	-	-
Change in Uncollected Customer Payments, Federal	-	-	204	-	58
Obligated Balance, Net, End of Period	$ 535	$ 2,634	$ 1,278	$ 35	$ 2,861
NET OUTLAYS	$ 371	$ 2,696	$ 815	$ 6	$ 4,926

	Other Defense Activities 89-0243	Defense Environmental Cleanup 89-0251	Defense Nuclear Nonproliferation 89-0309	Naval Reactors 89X0314	Bonneville Power Administration 89X4045
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 56	$ 21	$ 576	$ 3	$ -
Recoveries of Prior Year Unpaid Obligations	2	2	2	2	-
Budget Authority	643	6,193	1,647	790	4,121
Nonexpenditure Transfers, Net	-	24	(6)	-	(46)
Authority Not Available	(7)	(62)	(16)	(8)	(155)
Total Budgetary Resources	$ 694	$ 6,178	$ 2,203	$ 787	$ 3,920
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 495	$ 5,361	$ 1,190	$ 755	$ 1,734
Unobligated Balances Available	198	817	1,007	32	2,186
Unobligated Balances Not Available	1	-	6	-	-
Total Status of Budgetary Resources	$ 694	$ 6,178	$ 2,203	$ 787	$ 3,920
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 341	$ 2,136	$ 1,077	$ 295	$ 1,579
Obligations Incurred	495	5,361	1,190	755	1,734
Less: Gross Outlays	(486)	(4,972)	(974)	(592)	(1,486)
Obligated Balance Transferred, Net	-	180	-	-	-
Change in Uncollected Customer Payments, Federal	-	-	-	-	(108)
Obligated Balance, Net, End of Period	$ 350	$ 2,705	$ 1,293	$ 458	$ 1,719
NET OUTLAYS	$ 485	$ 4,972	$ 961	$ 592	$ (990)

	Western Area Power Administration 89X5068	Uranium Enrichment Decontamination & Decommissioning 89X5231	United States Enrichment Corporation Fund 95X4054	All Other Appropriations	Combined Statement of Budgetary Resources
BUDGETARY RESOURCES					
Unobligated Balance, Brought Forward, Oct 1	$ 94	$ -	$ 1,383	$ 339	$ 4,241
Recoveries of Prior Year Unpaid Obligations	2	2	-	55	80
Budget Authority	780	562	31	2,803	34,156
Nonexpenditure Transfers, Net	-	-	-	2	(40)
Authority Not Available	(2)	(6)	-	(294)	(674)
Total Budgetary Resources	$ 874	$ 558	$ 1,414	$ 2,905	$ 37,763
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	$ 454	$ 458	$ -	$ 1,802	$ 25,521
Unobligated Balances Available	420	100	-	1,080	10,795
Unobligated Balances Not Available	-	-	1,414	23	1,447
Total Status of Budgetary Resources	$ 874	$ 558	$ 1,414	$ 2,905	$ 37,763
CHANGE IN OBLIGATED BALANCE					
Obligated Balance, Brought Forward, Oct 1	$ 133	$ 83	$ -	$ 1,951	$ 12,458
Obligations Incurred	454	458	-	1,802	25,521
Less: Gross Outlays	(465)	(362)	-	(2,334)	(22,781)
Obligated Balance Transferred, Net	-	-	-	(242)	-
Less: Recoveries of PY Obligations, Actual	-	-	-	(28)	(34)
Change in Uncollected Customer Payments, Federal	(52)	-	-	-	102
Obligated Balance, Net, End of Period	$ 70	$ 179	$ -	$ 1,149	$ 15,266
NET OUTLAYS	$ 76	$ 362	$ (31)	$ 837	$ 16,078

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AUDITOR'S REPORT

— Memorandum from the Inspector General —

— Independent Auditor's Report —

— Management's Response to Auditors' recommendations —

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OTHER ACCOMPANYING INFORMATION

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INSPECTOR GENERAL'S MANAGEMENT AND PERFORMANCE CHALLENGES

On an annual basis, the Office of Inspector General identifies what it considers to be the most significant management challenges facing the Department of Energy. Now codified as part of the Reports Consolidation Act of 2000, this effort assesses the agency's progress in addressing previously identified challenges and identifies key emerging issues. This process assists the Office of Inspector General in setting internal priorities as it evaluates Department of Energy programs and operations.

Representing risks inherent to the Department's complex operations as well as those related to management operations, the management challenges are, for the most part, not amenable to immediate resolution and must, therefore, be addressed through a concentrated, persistent effort, over time. This year, the Office of Inspector General identified seven management challenges:

- Safeguards and Security
- Environmental Cleanup
- Stockpile Stewardship
- Contract Management
- Project Management
- Cyber Security
- Energy Supply

In addition to identifying the management challenges, we also developed a "watch list," which consists of important issues that do not meet the threshold of being classified as management challenges, yet warrant continued attention by the Department. The watch list includes the following operational and programmatic functions: Financial Management and Reporting; Worker and Community Safety; and, Human Capital Management.

By aggressively addressing these challenges, the Department can enhance program efficiency and effectiveness; prevent fraud, waste, and abuse; and, achieve substantial operational cost savings.

Safeguards and Security

While the Department has shifted its focus over time, special emphasis on safeguards and security has remained a vital aspect of the Department's mission. The Department plays an important role in the Nation's security by ensuring the safety and reliability of the U.S. nuclear weapons stockpile, advancing international efforts in nuclear non-proliferation and providing safe and efficient nuclear propulsion systems for the United States Navy. Due to the sensitivity of these missions, the Department maintains a substantial security regime, including over 4,000 protective force personnel and various physical safeguards for classified material and other sensitive property.

Over the past year, the Department made strides toward improving safeguards that protect the agency's employees and facilities. While we view this progress as a positive step, during FY 2006, we conducted several reviews which highlighted the need for continued improvement in this area. For example:

- An October 2005 audit of the Department's implementation of the Design Basis Threat (DBT) process, which reflects the most credible threats posed to Departmental assets and operations, revealed that the National Nuclear Security Administration experienced delays in implementing changes to meet the safeguards and security performance requirements contained in the 2003 DBT.
- A recent audit of the Department's management of non-nuclear high explosives found that two National Nuclear Security Administration defense laboratories were not maintaining control, accountability and safety over its inventory of explosives.

Clearly, the Department's core mission must be conducted in a safe and secure environment. The issues disclosed in our work during FY 2006 suggest the need for continued focus by Department management on this crucial challenge.

Environmental Cleanup

Largely a result of the legacy of the Manhattan Project and subsequent activities, the Department's environmental remediation activities are among it most important programs. The Department is responsible for cleaning contaminated sites and disposing of radioactive, hazardous and mixed waste resulting from over half a century of nuclear weapons production, research and other activities. The projected cost of these remediation efforts is over $180 billion, which represents the third largest liability on the overall financial statement of the U.S. Government.

During FY 2006, due to the risks and hazards associated with this difficult and costly task, we conducted a series of reviews to assess the progress of the Department's environmental cleanup activities. For example:

- An October 2005 audit disclosed that, in terms of both schedule and cost, the Department will not meet its milestone under the 1989 Tri-Party Agreement between the Department, the Washington State Department of Ecology, and the Environmental Protection Agency, for the retrieval of waste from single-shell tanks located at the Hanford Site's C-Farm.
- A May 2006 audit found that there have been delays in developing and implementing a spent nuclear fuel program at the Savannah River Site. As a result, the current conventional processing facility, known as H-Canyon will have to be maintained in an idle, but operational mode for at least two years, which is projected to cost taxpayers approximately $300 million.

While the Department made significant remediation progress at a number of contaminated sites over the past year, it continues to experience delays in accelerated cleanup programs and has faced quality assurance concerns at the Yucca Mountain Project. Thus, in our judgment, Environmental Cleanup remains a management challenge that will warrant significant attention into the future.

Stockpile Stewardship

The Department is responsible for the maintenance, certification and reliability of the Nation's nuclear weapons stockpile. In order to ensure that our nuclear weapons continue to serve their essential deterrence role, the Department maintains stockpile surveillance and engineering capability, refurbishes selected nuclear systems and sustains the ability to restore the manufacturing infrastructure for the production of replacement weapons.

Given the importance and complexity of the Department's role in ensuring the vitality of the U.S. nuclear stockpile, the Office of Inspector General classified Stockpile Stewardship as a significant management challenge. Over the past year, the Office of Inspector General has conducted a series of reviews to examine the Department's activities and management strategies in this crucial area.

- In response to the aging of the Nation's nuclear weapons stockpile, the National Nuclear Security Administration, working with the U.S. Department of Defense, developed strategies, known as Life Extension Programs, to refurbish the weapons stockpile to extend its deployment life. As part of this process, the W76 weapon system will undergo refurbishment at a cost of $916 million through the first production unit date to address aging concerns and to provide long-term certification of the system. A recent audit concluded that the National Nuclear Security Administration is at risk of not achieving the first production unit for the W76 refurbishment within the scope, schedule, and cost parameters detailed in the project plan.
- The Department's Sandia National Laboratory is refurbishing the Spin Rocket Motor, which is a prime component of the B61 nuclear weapon system. A September 2006 audit found that the National Nuclear Security Administration had not adequately validated key Spin Rocket Motor data provided by Sandia National Laboratory prior to the approval of the new project.

The Department has taken steps to further enhance the safety and reliability of the U.S. weapons stockpile. Most prominently, in FY 2006, the Department announced the details of a comprehensive plan to employ a smaller, safer and more secure weapons stockpile in order to improve our capability to respond to changing security challenges. The goal of the plan, as stated by the Department, is to facilitate an improved research and development infrastructure, modernize production facilities and consolidate nuclear materials. Although in its initial stages, the program is a positive step toward improving the Department's Stockpile Stewardship Program.

Contract Management

The Department places significant reliance on contractors, employing over 100,000 contractor employees. Contracts are awarded to industrial companies, academic institutions and non-profit organizations that operate a broad range of Department facilities, including its most sensitive national security facilities. In fact, most of the Department's operations are carried out through contracts that consume about three-fourths of its budget. As a result, effective contract management is an essential component of the performance of the Department's programs.

During FY 2006, Office of Inspector General reviews highlighted the need for improved management oversight in the administration of Departmental contracts. For example:

- A December 2005 review determined that the cost of the Mixed Oxide Fuel Fabrication (MOX) Facility at the Savannah River Site will significantly exceed the amounts reported to Congress in 2002. During the course of our review, we found that the Department's estimate for the design and construction of the MOX Facility was approximately $3.5 billion, which was $2.5 billion more than previously estimated.
- In FY 2005, the Department and its contractors spent over $1.2 billion on information technology (IT) infrastructure and support, including activities such as server and network technical services, database management and administration, and desktop support. An April 2005 audit revealed that while the Department had initiated action to consolidate requirements for services provided to Federal employees, it continues to face a number of challenges related to contractor procured IT support services.

To its credit, in response to several of our reviews, the Department has developed strategies and programs to address contract management concerns. However, given the number of contracts awarded and managed by the Department on a yearly basis, combined with the issues raised in our reviews, the area of contract management remains a significant Department challenge.

Project Management

The Department undertakes numerous unique and complex multi-million dollar projects in order to support its various missions. In recent years, the Department, in responding to identified weaknesses in the area of project management, improved the discipline and structure for monitoring project performance. Further, by employing effective policies and controls to ensure that ongoing projects are evaluated frequently, the Department has focused on improving project management throughout the complex.

Recent Office of Inspector General reviews have identified additional improvements which are necessary to ensure that the Department's efforts to enhance project management throughout the complex are effective and accomplishing its goals. For example:

- In May 2001, the Office of Inspector General reported that the Department's Miamisburg Closure Project would not be completed under current cost and schedule requirements. A recent follow-up audit concluded that the Department is unlikely to achieve revised closure goals on the Miamisburg Closure Project.
- A December 2005 audit found that the curtailment of operations at the Radiological Calibration Laboratory at the Hanford Site, as planned by the Department, would leave the Office of Environmental Management without site capability to perform internal and external dosimetry assessments and radiological calibrations.

While the Department has continued to make progress toward improving project management principles, our reviews over the past year continue to highlight weaknesses in this area. Concerns related to project management within the Department were emphasized in the release of a recent review by the U.S. Army Corps of Engineers pertaining to the estimated cost of the Waste Treatment and Immobilization Plant at the Hanford Site. Given the complexity and importance of the Department's numerous multi-million dollar projects and the results of recent Office of Inspector General reports, Project Management remains a significant management challenge.

Cyber Security

The Department spends approximately $2.5 billion a year on information technology. As a result of the importance of information technology on its numerous projects, laboratories and assets, along with the vast array of data that is produced, cyber security has become a crucial aspect of the Department's overall security posture. In 2005, the Department established a Cyber Security Improvement initiative, the goal of which was to identify improvements for cyber security controls within the Department. In recent years, threats to the Government's information systems have become a national security risk. As a result of these risks and in light of recent efforts to intrude into the Department's systems, we have categorized Cyber Security as a significant management challenge.

During FY 2006, the Office of Inspector General conducted various reviews in this area, which highlighted the need for improvements in the overall cyber security program.

- A September 2006 audit disclosed deficiencies in the Department's unclassified cyber security program, which exposed critical systems to an increased risk of compromise. We found that continuing cyber security weaknesses occurred, at least in part, because program and field elements did not always implement or properly execute existing Departmental and Federal cyber security requirements.
- During a June 9, 2006, congressional hearing, Department officials publicly disclosed that an unclassified computer system was compromised at the NNSA Service Center in Albuquerque, New Mexico. As a result, a file containing the names and social security numbers of 1,502 NNSA employees was ex-filtrated. An Office of Inspector General special inquiry concluded that the Department's handling of this matter was largely dysfunctional and that the operational and procedural breakdowns were caused by questionable managerial judgments; significant confusion by key decision makers as to lines of authority, responsibility, and accountability; poor internal communications; and, insufficient follow-up on critically important issues and decisions.

To help address continuing weaknesses, the Department recently launched a revitalization effort designed to improve the management of its cyber security program to ensure that systems and data are secure. Due to the evolving nature of cyber security threats, immediate as well as long-term action is necessary to ensure the protection of the Department's information systems.

Energy Supply

On August 8, 2005, the Energy Policy Act of 2005 was signed into law at the Department's Sandia National Laboratory in Albuquerque, New Mexico. Intended to establish a comprehensive, long-term energy policy, the Act provides incentives for traditional energy production as well as newer, more efficient energy technologies. The first comprehensive energy legislation in over a decade, the Act focuses on areas such as energy efficient building construction, hybrid vehicles, clean coal, and other renewable and alternative energy sources. The passage of the Energy Policy Act provides the Department with the opportunity to aggressively lead the effort to increase our national commitment to alternative fuels and clean energy technologies. The Department is charged with the task of helping to modernize our national energy infrastructure; expand the Strategic Petroleum Reserve; invest in clean energy technologies such as hydropower, wind, solar, and cellulosic biomass; and, to promote conservation in our homes and businesses.

The energy issues facing the United States today did not develop overnight and, therefore, will require both short-term and long-term solutions to address growing challenges. To combat challenges related to the modernization of the national energy infrastructure, in FY 2006, the Department announced the nomination of the first Assistant Secretary for Electricity Delivery and Energy Reliability. This position supports the Department's objective to improve research and development pertaining to electricity delivery infrastructure; conduct analyses of the physical, regulatory, and institutional barriers that interfere with the efficient and secure operation of electric transmission and distribution systems; and, bring public awareness to the developments that will help ensure the reliable flow of energy to all Americans.

Given the importance of stabilizing the country's energy supply and the challenges that this monumental task requires, we have categorized Energy Supply as a significant management challenge facing the Department.

IMPROPER PAYMENTS INFORMATION ACT REPORTING DETAILS

(UNAUDITED)

Improper Payment Outlook

As noted in the chart below, the Department's extremely low improper payment rate minimizes the Department's opportunities for future reductions in erroneous payments.

Improper Payment (IP) Reduction Outlook
FY 2006 – FY 2009 ($ in millions)

Class of Payment/Program	FY 2006 Outlays/Payments	FY 2006 IP%	FY 2006 IP$	FY 2007 IP%	FY 2008 IP%	FY 2009 IP%
Payroll	$ 5,653	0.13	$ 7.0	<.25	<.25	<.25
Travel	$ 503	0.07	$ .3	<.25	<.25	<.25
Vendors	$ 14,404	0.06	$ 10.0	<.25	<.25	<.25
Other	$ 345	0.00	$ 0.0	<.25	<.25	<.25

Note: Federal payroll not included due to outsourcing of this function. See footnote 1 on page one of this appendix.

Recovery Auditing

P.L. 107–107, "National Defense Authorization Act for FY 2002," requires agencies that enter into contracts with a total value in excess of $500 million in a fiscal year to carry out a cost effective program for identifying overpayments to contractors, and for recovering amounts overpaid. OMB memorandum M-03-07, "Programs to Identify and Recover Erroneous Payments," requires agencies to review their contractor payments for errors resulting in overpayments (recovery audit), take action to recover those overpayments, and report the results of these activities to OMB on an annual basis.

Recovery Auditing Statistics
FY 2006 ($ in millions)

Contractor Payments Reviewed	$ 9,178
Contractor Overpayments Identified	$ 10.5
Overpayments Recovered	$ 9.0
Overpayments Pending Recovery	$ 1.427
Overpayments Not Recoverable	$ .073
Total Cost of Recovery Audit Program	$ .129
Departmental Costs	$ .104
Recovery Auditing Contractor Costs	$ .024

OTHER STATUTORY REPORTING

Management's Response to Audit Reports

Pursuant to the Inspector General Act Amendments of 1988 (Public Law 100-504), agency heads are to report to Congress on the status of final action taken on audit report recommendations. This report complements a report prepared by the Department's Office of Inspector General (IG) that provides information on audit reports issued during the period and on the status of management decisions made on previously issued IG audit reports.

Inspector General Audit Reports

The Department responds to audit reports by evaluating the recommendations they contain, formally responding to the IG, and implementing agreed upon corrective actions. In some instances, we are able to take corrective action immediately and in others, action plans with long-term milestones are developed and implemented. The audit resolution and follow-up process is an integral part of the Department's effort to deliver its priorities more effectively and at the least cost. Actions taken by management on audit recommendations increase both the efficiency and effectiveness of our operations and strengthen our standards of accountability.

During FY 2006, the Department took final action on 45 IG reports with the agreed upon actions including final action on three IG operational, financial, and pre-award audit reports with funds put to better use. At the end of the period, 98 reports awaited final action.

Status of Final Action on IG Audit Reports for FY 2006

The following chart provides more detail on the audit reports with open actions and the dollar value of recommendations and funds "put to better use" that were agreed to by management.

Audit Reports	Number of Reports	Agreed-Upon Funds Put to Better Use (in Millions)
Pending final action at the beginning of the period	96	$
With actions agreed upon during the period	47	$
Total pending final action	143	$
Achieving final action during the period	45	$*
Requiring final action at the and of the period	98	$

* Reflects a single amount also included in the IG's semi-annual report.

Inspector General's Contract Audit Reports

To begin this period, final action had not been taken on one IG contract audit report. At the end of the fiscal year, there are no contract audit reports pending final action.

Contract Audit Reports Statistical Table FY 2006

Total Number of IG Contract Audit Reports (Contract and Financial Assistance) and the dollar value of disallowed costs:

	Number of Reports	Disallowed Costs*
Contract audit reports with management decisions on which final action had not been taken at the beginning of the period	1	N/A
Contract audit reports issued on which management decisions were made during the period	-	N/A
Total contract audit reports pending final action during the period	1	N/A
Contract audit reports on which final action was taken during the period		
Recoveries	1	$ 151,354
Reinstatements	-	$-
Totals	-	$-
Contract audit reports needing final action at the end of the period	-	0

* The amount of costs questioned in the audit report with which the contracting officer concurs and has disallowed as a claim against the contract. Recoveries of disallowed costs are usually obtained by offset against current claims for payment and subsequently used for payment of other eligible costs under the contract.

Government Accountability Office Audit Reports

The U.S. Government Accountability Office (GAO) audits are a major component of the Department's audit follow-up program. At the beginning of FY 2006 there were 34 GAO audit reports awaiting final action. During FY 2006, the Department received 24 additional final GAO audit reports, of which 15 required tracking of corrective actions and 9 did not because the reports did not include actions to be taken by the Department. The Department completed agreed-upon corrective actions on 9 audit reports during FY 2006, leaving 40 GAO reports awaiting final action at year-end.

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GLOSSARY OF ACRONYMS

ACI .....American Competitiveness Initiative
AEI .....Advanced Energy Initiative
AFCI .....Advanced Fuel Cycle Initiative
AMP .....Asset Management Plan
APS .....Advanced Photon Source
ASCR.....Advanced Scientific Computing Research
ATLAS .....Argonne Tandem Linac Accelerator System
ATR .....Advanced Test Reactor
BABAR .....B and B-bar Experiment
BER.....Biological and Environmental Research
BES.....Basic Energy Sciences
BPA.....Bonneville Power Administration
CDF.....Collider
CEBAF.....Continuous Electron Beam Accelerator Facility
CIO .....Chief Information Officer
CMS .....Centers for Medicare and Medicaid Services
COL.....Construction and Operating License
CSPT .....Cyber Security Project Team
CSRS.....Civil Service Retirement System
D&D .....Decontamination and Decommissioning
DARHT.....Dual-Axis Radiographic Hydrotest
DBT.....Design Basis Threat
DNN .....Defense Nuclear Nonproliferation
DoD.....Department of Defense
DOE.....Department of Energy
EERE.....Energy Efficiency and Renewable Energy
EIA .....Energy Information Administration
EM .....Office of Environmental Management
ERISA .....Employee Retirement Income Security Act
ES&H .....Environmental Safety and Health
ESA.....Endangered Species Act
EVMS .....Earned Value Management System
FCRPS.....Federal Columbia River Power System
FERC.....Federal Energy Regulatory Commission
FERS.....Federal Employees Retirement System
FES .....Fusion Energy Sciences
FFMIA .....Federal Financial Management Improvement Act
FISMA .....Federal Information Security Management Act
FMFIA .....Federal Managers' Financial Integrity Act
FSU .....Former Soviet Union
FY .....Fiscal Year
GAAP.....Generally Accepted Accounting Principles
GAO.....Government Accountability Office
GMRA .....Government Management Reform Act
GNEP.....Global Nuclear Energy Partnership
GPRA.....Government Performance and Results Act
HEP.....High Energy Physics
HEU.....Highly-Enriched Uranium
HRIBF .....Holifield Radioactive Ion Beam Facilities
IG .....Inspector General
IOU .....Investor Owned Utilities
IP .....Improper Payment
IPIA.....Improper Payment Information Act
IT .....Information Technology
ITER .....in Latin, iter means "the way"
kW .....Kilowatt
kWh.....Kilowatt Hour
LANL .....Los Alamos National Laboratory
LEU .....Low Enriched Uranium
LM .....Office of Legacy Management
MEO .....Most Efficient Organization
MMS .....Mineral Management Service
MNA .....Monitored Natural Attenuation
MOX .....Mixed Oxide
NE .....Office of Nuclear Energy
NEP.....National Energy Policy
NERC .....North American Electric Reliability Council
NGNP .....Next Generation of Nuclear Power Plants
NIF .....National Ignition Facility
NNSA.....National Nuclear Security Administration
NP .....Nuclear Physics
NREL.....National Renewable Energy Laboratory
NSTX.....National Spherical Torus Experiment
NWF .....Nuclear Waste Fund
NWPA .....Nuclear Waste Policy Act
OMB .....Office of Management and Budget
P.L. .....Public Law
PAR.....Performance and Accountability Report
PART .....Program Assessment Rating Tool
PMA .....Power Marketing Administrations
PMA .....President's Management Agenda
PMA .....Power Marketing Administration
PRB.....Post Retirement Benefits
PV .....Photovoltaic
R&D .....Research & Development
RHIC .....Relativistic Heavy Ion Collider
RRW .....Reliable Replacement Warhead
RSI .....Required Supplementary Information
RSSI .....Required Supplementary Stewardship Information
RTG.....Radioisotope Thermoelectric Generator
RW .....Office of Civilian Radioactive Waste Management
SAV .....Site Assistance Visit
SC .....Office of Science
SCADA.....Supervisory Control and Data Acquisition
SCE.....Southern California Edison Company
SciDAC .....Scientific Discovery through Advanced Computing
SFAS .....Statement of Financial Accounting Standards
SFFAS .....Statement of Federal Financial Accounting Standard
SLAC .....Stanford Linear Accelerator Center
SNF .....Spent Nuclear Fuel
SNS.....Spallation Neutron Source
SP .....Office of Security and Safety Performance Assurance
SSP .....Stockpile Stewardship Program
STARS .....Standard Accounting and Reporting System
TRU.....Transuranic
TTC .....Transformational Technology Core
USEC.....United States Enrichment Corporation
WIPP .....Waste Isolation Pilot Plant

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We welcome your comments on how we can improve the Department of Energy's Performance and Accountability Report.

Please provide comments and requests for additional copies to:

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